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Politics this week

Feb 21st 2008
From The Economist print edition

AFP

Fidel Castro said that he will step down as **Cuba's** president, opening the way for his younger brother, Raúl, or another senior official, to replace him when the ruling Council of State is chosen later this month. Mr Castro has not been seen in public since he underwent intestinal surgery in July 2006. However, he plans to continue to write regular articles in the official press and "to fight on as a soldier of ideas". Earlier, Cuba released four political prisoners arrested in 2003, allowing them to fly to Spain. See article

In **Brazil**, four laptop computers and two hard drives containing secret data on recent oil and gas discoveries by Petrobras, the state oil company, were stolen in what police regard as a case of industrial espionage. See article

In **Colombia**, 15 soldiers were convicted of ambushing and killing ten members of an elite police drug squad in 2006.

The Canadian province of British Columbia is proposing a **carbon tax** in its latest budget; this would be the first such tax in North America.

Hawaii Ten-0

Barack Obama notched up more primary victories, this time in Wisconsin and Hawaii, making ten victories in a row and further diminishing Hillary Clinton's chances of the Democratic nomination. John McCain won both states as well. He is still slightly short of outright victory, but there is now no chance that he can fail to win the Republican presidential nomination. See article

A law that allows warrantless **wire-tapping** of foreigners lapsed after the Democratic majority in the House of Representatives failed to renew the legislation. See article

In a decision relating to a failed medical catheter, a **Supreme Court** ruling will make it more difficult for plaintiffs to sue the manufacturers of medical devices that have been granted approval by federal regulators.

A missile fired from an American navy ship in the Pacific successfully shot down a falling **spy satellite**, in the hope of destroying a fuel tank containing toxic chemicals that otherwise might possibly have survived its descent to earth and endangered humans. A year ago, China was criticised when it destroyed a weather satellite, showering debris through space.

Expanding Europe

AP

Kosovo declared independence, the seventh country to emerge from the dissolution of the former Yugoslavia. The declaration was met with demonstrations by Serbs in Kosovo (they burned two border posts), denunciations by the governments of Serbia and Russia, a split over recognition within the European Union, and arguments between Russia and America at the United Nations. See article

Tassos Papadopolous, a staunch Greek nationalist who persuaded his compatriots to reject a UN plan for **Cyprus**, unexpectedly lost out in the first round of a Greek-Cypriot presidential election. His two rivals face a run-off on February 24th.

Serzh Sarkisian, **Armenia's** current prime minister, claimed a convincing victory in the country's presidential election. His rival and former president, Levon Ter-Petrossian, claimed that the ballot had been rigged. See article

Italy's Christian Democrats, the third-largest party in Silvio Berlusconi's former governing coalition, said they would not campaign as part of his alliance, possibly denting his chances of winning a parliamentary victory.

Explosive allegations

The exiled opposition group that first exposed **Iran's** nuclear programme said it had discovered a facility near Tehran that is developing nuclear warheads for the country's medium-range missiles. Its claim contradicts an American intelligence report that Iran halted work on such warheads in 2003.

Yasser Abed Rabbo, a senior aide to the Palestinian president, Mahmoud Abbas, said **the Palestinians** should use the example of Kosovo and unilaterally declare an independent state if talks with Israel do not succeed.

Kenya's opposition party said it would restart mass protests if talks with President Mwai Kibaki to reach a political settlement over the disputed elections did not succeed within a week. See article

AFP

President George Bush, on a five-country trip to **Africa**, described as “baloney” the notion that he was seeking bases for Africom, an American military command for Africa announced a year ago. So far, only Liberia has agreed to be an Africom host.

Carrying on regardless

A general election in **Pakistan** resulted in humiliation for President Pervez Musharraf. The Pakistan People's Party, led by the widower of Benazir Bhutto, a former prime minister, won about one-third of the seats, and the party led by Nawaz Sharif, another former prime minister, about a quarter. The party aligned with Mr Musharraf won just 16%. But he said he was not thinking of resigning and would work with any prime minister who emerges. See article

Over 100 people were killed in a suicide-bombing at a public dogfight in the city of Kandahar in **Afghanistan**. Among those killed was Abdul Hakim Jan, the leader of an anti-Taliban militia, who is believed to have been the intended target of the attack. The next day over 35 people died in another bombing, in Spin Boldak, in Kandahar province.

Lee Myung-bak, **South Korea's** president-elect who is set to take office on February 25th, was cleared by a special prosecutor of involvement in a financial fraud in 2001. Despite the allegations of share-price fixing hanging over his campaign Mr Lee won a landslide victory in December's poll.

The American army imposed a curfew on its troops stationed on the Japanese island of **Okinawa** after a series of incidents, including an alleged rape of a teenager.

The government of the eastern Indian state of **Orissa** said that at least 20 Maoist rebels had been killed in fighting with the security forces. The battle followed an assault by some 500 Maoists on a police compound in the state.

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Business this week

Feb 21st 2008
From The Economist print edition

Britain moved to nationalise **Northern Rock**, a mortgage lender that asked for support from the central bank in September after global credit markets froze. The nationalisation ended efforts to sell the bank, which had lasted for five months but had foundered when both the remaining bidders asked for continued government support for the stricken bank. See article

As banks continued to discuss a bail-out of America's troubled "monoline" **bond insurers**, one of the firms, FGIC, said it wanted to split in two. Two more, Ambac and MBIA, which brought its former boss back to stabilise the company, are also considering restructuring. The latest victim of the industry's woes is the auction-rate market linked to municipal bonds, where interest rates have shot up. See article

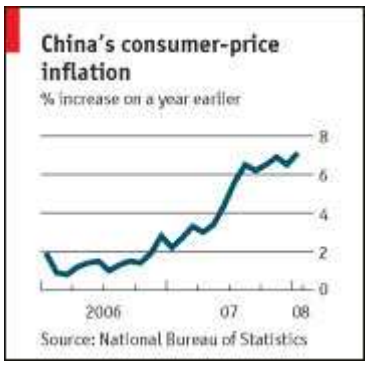
Second thoughts

Several announcements raised concerns that the damage to the financial sector from the **subprime crisis** might be worse than originally feared. **Credit Suisse** said it would write down a further $2.9 billion on assets related to mortgage-backed securities. Only last week the Swiss bank had won praise for its apparently thorough disclosure of write-downs of around $1 billion. An affiliate of **Kohlberg Kravis Roberts**, a buyout firm, said it had negotiated an extension on the repayment of mortgage-backed securities it had originally hoped to unwind last summer. See article

Alliance & Leicester, a British mortgage lender, said its net profit had fallen 41% because of write-downs. Profits at **BNP Paribas**, a French bank, fell by 42% in the fourth quarter, but rose 7% for the year as a whole. Société Générale said it lost *euro*3.35 billion ($5 billion) in the fourth quarter, thanks both to the unauthorised trading it uncovered last month and to subprime investments that have gone sour. A committee investigating the trading scandal said that managers missed no fewer than 75 warning signs that might have alerted them to the problem.

China rising

Inflation increased in both **America** and **China**. American consumer prices rose by 4.3% year-on-year in January, raising fears that the Federal Reserve may find it difficult to cut interest rates in the coming months. Excluding food and energy, the rate was 2.5%.



Several Asian steelmakers agreed to increase the amount they pay Vale, a Brazilian mining firm, for its iron ore, by as much as 71%. The price of oil surpassed $101 for the first time. Several other **commodities**, including platinum and soyabeans, also hit new records, largely as a result of disruptions to supplies.

South Africa's finance minister unveiled a new budget, which included a 60 billion rand ($7.6 billion) loan for **Eskom**, the state-owned electricity monopoly, in a bid to end the country's debilitating power shortages. The budget also cut the corporate tax rate from 29% to 28%.

Klaus Zumwinkel stepped down as chief executive of **Deutsche Post** after being accused of evading tax by placing *euro*1m ($1.47m) in a bank in Liechtenstein. Prosecutors have indicated that hundreds of other businessmen are under investigation for stashing money in the principality, out of reach of the taxman. The investigation is the latest in a series German business scandals, and has sparked a diplomatic row with Liechtenstein over banking secrecy. See article

Where's the beef?

Hallmark/Westland, a meat-processing firm, withdrew 143m pounds of beef products, in **America's biggest recall of meat**. The firm, which supplied beef to many schools, had allowed into its slaughterhouses animals too weak to walk. It has now ceased operations, pending the completion of a government investigation.

Toshiba said it would abandon HD DVD, its high-definition format, handing victory to the rival Blu-ray technology, backed by Sony, in the battle to become the successor to the **DVD**. Support for HD DVD had slipped away in recent weeks, as studios, retailers and rental chains opted exclusively for Blu-ray. Toshiba's share price jumped on the news. It now plans to invest in other areas, such as flash memory, which offer higher margins.

Bain Capital, an American private-equity firm, and **Huawei Technologies**, a Chinese telecoms firm, said they had abandoned their bid to buy **3Com**, an American IT firm, because of opposition from the government committee that scrutinises foreign investment in sensitive industries.

Wal-Mart, the world's biggest retailer, announced strong results for the final quarter of 2007, defying the gloom felt by its American rivals. Its sales increased by 8.3%, to a record $106.3 billion, compared with the same period the previous year. Profits rose by 4% in the fourth quarter. See article

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KAL's cartoon

Feb 21st 2008
From The Economist print edition

Illustration by Kevin Kallaugher

I'VE GOT OBAMOMENTUM!!
I'M HAVING A HILLARESURGENCE!!
IF THIS RACE CARRIES ON TO THE SUMMER IT COULD SPLIT THE PARTY...
I THINK YOU'RE HALF RIGHT
OBAMA 2008
CLINTON 08

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Cuba, Latin America and the United States

Castro's legacy

Feb 21st 2008
From The Economist print edition

Rue the damage he has done. But lift the embargo against a sad, dysfunctional island

HE HAS been the great survivor of world politics. When Fidel Castro marched into Havana in January 1959 at the head of his troop of bearded revolutionaries, Dwight Eisenhower, Harold Macmillan and Nikita Khrushchev were all in power, and the Beatles were yet to come. Ensconced in his Communist-run island, Castro has weathered ten American presidents and their economic embargo against him. He has outlasted by almost two decades the cold war and his former sponsor, the Soviet Union—long enough to benefit from a new era of anti-Americanism in which Hugo Chávez in oil-rich Venezuela has come to his aid. And now, at last, he is stepping down as Cuba's president, for reasons of age and ill-health, but of his own volition and with what he clearly hopes will be an orderly succession that preserves his revolution.

He will probably be replaced by his brother, Raúl, who has been running the government since Fidel underwent abdominal surgery in July 2006. Raúl Castro has given many signals that he intends to restart reforms that in the mid-1990s introduced some market mechanisms into the sclerotic, centrally planned economy (see article). Yet reform will at first be slow—not least because while Fidel remains alive, he will have something of a veto over change.

Look a bit further ahead, and two broad scenarios seem possible in Cuba. The first is one in which the Communist Party oversees the introduction of capitalism while retaining political control—in the mould of China, Vietnam or, closer to home, Mexico in the heyday of the Institutional Revolutionary Party. That seems to be the route favoured by senior figures in the regime, few of whom show any signs of being closet democrats. The other scenario is the one long dreamed of in Miami and in Washington, of the regime's sudden collapse and, it is assumed with a confidence many Iraqis may find worryingly familiar, a swift move to liberal democracy.

The first prospect stems from the notion that Cuba is somehow different—its people won't want democracy. The second argues that the only exceptional thing is Mr Castro: remove his evil genius and the regime will crumble. In fact, the truth seems somewhere in between. To get a sense of what might—and should—happen, start by cutting through the fog of propaganda surrounding Fidel himself.

The man and the myth

Apart from its tropical ambience, Cuban Communism always differed from that of Eastern Europe in being the product of a national revolution, not of foreign conquest. Mr Castro was inspired first and foremost by his country's frustrated search for nationhood. As an island on the doorstep of the 20th

century's superpower, Cuba's sad history was moulded by geography. Insularity meant that Spanish colonial rule survived far longer there; then came subjection to the United States as a neo-colony and misrule by a string of corrupt strongmen.

Having won power, Mr Castro had no intention of giving it up. It was not the American trade embargo that pushed him into the arms of the Soviet Union; he went willingly. Yet the embargo, the CIA-organised invasion at the Bay of Pigs and the agency's repeated assassination attempts against him all gave him the perfect—if false—justification for dictatorship.

Mr Castro's supporters point out that he used his power to give Cubans world-class health and education services, at least until the Soviet subsidies dried up. Those achievements were genuine, but often exaggerated. In 1959 Cuba was already one of the five leading countries in Latin America on a variety of socio-economic indicators. And along with the schools and clinics came the dreary economic failures of central planning, the absence of political freedom and a police state. Cuba is outranked today in the UN human-development index by democracies such as Argentina, Chile, Uruguay and Costa Rica, while Mexico is not far behind.

So forget the cigars and the posters: Cubans have had a rotten deal from a miserable regime—and they know it. Scratch the surface of the regime's propaganda, and profound discontent wells up. But that does not mean they will automatically push out the Castros. Sadly, unlike much of South America, the island has no democratic tradition to speak of. Two-thirds of Cubans have known no ruler other than Fidel. They may yearn for change but they also fear it: although their lives are poor, they are also peaceful. If Fidel's successors fix the economy, Cubans may acquiesce in their rule.

That, however, is a big if. Raúl lacks his brother's charisma and it is not clear how he will deliver the “structural and conceptual changes” he admits the economy needs. Without reform, wages and productivity will remain miserable; but reforms would bring more inequalities and resentments as well as benefits. That is why Raúl is proceeding with great caution.

Raise the embargo and help change through

The question now is a familiar one: whether to keep pressure on a dysfunctional dictatorship in the hope of dispatching the Castros quickly, or to try to lure Raúl forward by dropping America's trade embargo. The first option has its logic: why let a repressive, demeaning system modernise itself slowly? But there are more powerful reasons to drop the embargo now.

To begin with, a policy that has failed to hurt the Castros for four decades is unlikely to work now. America risks leaving the field to Mr Chávez, who wants Venezuela to become more like Cuba rather than the other way around (he is already giving Cuba fast internet access because America won't). And what if pressure “worked”? The result at the moment could be chaos and violence. Cuba needs not just to dismantle Fidel's Communism but to construct the state institutions that might underpin capitalist democracy. The country can prosper only if the two Cubas—the entrepreneurial diaspora of 1.5m Cuban-Americans and the 11m on the island—work together, rather than against each other. But that, too, will take time.

Real change in Cuba will start only after Fidel's death. But that is all the more reason for outsiders to make constructive use of his retirement. He has stubbed out Cuba's freedom once; it would be tragic if hatred of him led to more pain.

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The world economy

Japain

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From The Economist print edition

The world's second-biggest economy is still in a funk—and politics is the problem

THE ghost of Japan's “lost decade” haunts the United States. As the consequences of America's burst housing bubble are felt through financial markets, it has become popular to ask whether Japan's awful experience of boom-and-bust has lessons for other rich countries facing, at best, sharp slowdowns. Japan's property-and-stockmarket bubble burst in 1990, creating bad loans equivalent in the end to about one-fifth of GDP. The economy began growing properly again only 12 years later, and only in 2005 could Japan say it had put financial stress and debt-deflation behind it. Even today the country's nominal GDP remains below its peak in the 1990s—a brutal measure of lost opportunities.

Yet ghosts can deceive. Similarities exist between Japan then and America today, notably the way that a financial crisis threatens the “real” economy. But the differences outnumber them. Japan should indeed be a source of worry—not, however, because other rich countries are destined for the same economic plughole, but because it is the world's second-biggest economy and it has not tackled the fundamental causes of its malaise.

A tale of two crunches

Even by today's gloomiest assumptions, Japan's bust dwarfs America's, if in part because its boom did too. Take for instance the collapse in the equity market. America's S&P 500 is down just 8% from its 1999 peak. The Nikkei 225 share index is now nearly two-thirds below its 1989 peak. In commercial property the comparison between the two boom-and-busts is almost as dramatic.

The more important difference, though, is how each country got into its mess and then responded to it. In America, the government can be blamed for inadequate oversight of the vast market in slicing and dicing mortgages, but it has reacted aggressively to the bust, with monetary and fiscal stimulus. Financial institutions are busy declaring their losses. In Japan, the government was deeply complicit in puffing up the market and complicit, too, in hiding the ensuing mess for years.

Japan's economy is still held back by its politicians (see article). Though much has changed since 1990, a cyclical slowdown is now laying bare Japan's structural shortcomings. A few years ago, people hoped that Japan, which is still a bigger economic power than China and has some marvellous companies, would help take up some of the slack in the world economy if America tired; that now looks unlikely. Productivity is disastrously low: the return on new investment is around half that in America. Consumption is still flagging, thanks in part to companies' failure to increase wages. Bureaucratic blunders have cost the economy dearly, and Japan needs a swathe of reforms to trade and competition

without which the economy will continue to disappoint.

The Liberal Democratic Party (LDP), which has ruled for the best part of half a century and remains a machine of pork and patronage, has given up trying to tackle these problems. What reformist tendencies it had under the maverick Junichiro Koizumi, prime minister between 2001 and 2006, have now gone into reverse. To make matters worse, last July the opposition Democratic Party of Japan (DPJ) won control of the upper house of the Diet (parliament). The constitution never envisaged upper and lower houses of the Diet being controlled by opposing parties, and since the upper house has nearly equal powers to the lower one, the opposition can frustrate virtually every government initiative.

Thus Yasuo Fukuda, prime minister since September, spent his first four months in office fighting to reauthorise a solitary refuelling ship operating in the Indian Ocean. Now the government is locked in grinding battles with the DPJ over bills to authorise a budget for the fiscal year that starts in April and to appoint a new governor of the Bank of Japan on March 19th.

But the problem is not merely a constitutional one. Japan is at an uncomfortable point: no longer a one-party state, yet still far from being a competitive democracy with rival parties alternating in power. Both main parties are riven by contradictions: both contain modernisers alongside a grizzled old guard of conservatives and socialists. Political chaos has allowed the old forces within the LDP—the factions, the conservative bureaucrats, the builders and the farmers—to reassert their influence. Meanwhile, the DPJ's leader, Ichiro Ozawa, who used to have a reformist streak, now sounds like an old-style LDP boss.

Japan's politics is skidding for the buffers. The crash may come as early as March, over budget differences. One way to avoid it, some politicians think, is for the LDP and the DPJ to form the kind of “grand coalition” which Mr Fukuda and Mr Ozawa talked about in November. This plan was thwarted when the rest of the DPJ leadership, rightly, balked: in effect, it would have taken Japan back towards being a one-party state, distributing largesse rather than reforming the economy.

Time for a good wash

Yet the buffers may be the best place for Japan. Or rather, a general election—perhaps a string of elections—offers the best chance of forcing parties to confront their inconsistencies, offering voters real choices rather than candidates who compete to bring home the bacon.

There are glimmers of hope. A cross-party group of modernising politicians, academics and businessmen has formed a pressure group, *Sentaku* (with connotations both of choice and of giving things a good wash). Radically, they want to decentralise the top-heavy system in which local politicians are in thrall to Tokyo's pork providers; they think the main parties should campaign on coherent manifestos; and they are urging ordinary Japanese, who do not readily bother their heads about such things, to reflect on the folly of voting for politicians who smother their districts in unused highways and bridges that lead nowhere—the visible blight of failed politics.

Many politicians say a general election would only add to the chaos. That is the argument of a political class grown fat on a broken system. Voters need a chance to start putting it right. If choice is chaos, bring it on.

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Pakistan

Where voters are heroes

Feb 21st 2008
From The Economist print edition

They have spoken clearly. Politicians should listen—and Pervez Musharraf should go

TO CALL it a massive upset is to ignore the opinion polls, which for months had been recording the growing unpopularity of Pakistan's president, Pervez Musharraf. Yet it is still a surprise—and a credit to both the army and its former chief, Mr Musharraf—that the opposition has been allowed so thoroughly to trounce his supporters in the election held on February 18th (see article). A rigged outcome would have led to months of street protest, instability and perhaps another army coup. So might the unrigged one. But at least Pakistan's politicians have a chance to break the cycle in which corrupt, incompetent civilian governments are usurped every few years by corrupt, incompetent military governments. And Mr Musharraf has the chance to be remembered as the man who restored Pakistani democracy, not the man who doomed it.

There is of course every likelihood that all involved will blow these chances. But the voters have shown they deserve much better. Despite the legacy of cynicism left by a long history of manipulated elections, and despite the risk of terrorist attack, they turned out in respectably large numbers. And they decisively rejected both the backers of military dictatorship and the avowedly Islamist parties.

Sadly, the present hopeful mood may not last long. The two big winners in the election—the Pakistan People's Party of Benazir Bhutto, assassinated in December, and the Pakistan Muslim League (Nawaz) of Nawaz Sharif—each made a mess of government in the 1980s and 1990s. And although Miss Bhutto's widower, Asif Zardari, and Mr Sharif have been thrown into an expedient alliance, the prospects for long-term co-operation look bleak. Not only do the main protagonists loathe each other (Mr Zardari was locked up when Mr Sharif was prime minister). They also lack a common agenda.

As for Mr Musharraf, he has, as ever, shown a commando-like agility in shifting his position. Before the vote, he insisted it would show that he was still the people's choice. In the improbable event that his opponents took power and threatened to impeach him, he would at once stand down. In defeat, he pretends that the election has little to do with him as president, that he will work with any prime minister and that his resignation is not at issue. He also claims that the result shows his sincerity in holding free and fair elections. That is debatable: their relative freeness and fairness may have had more to do with his weakness. The power to rig was no longer wholly his, once domestic and foreign pressure forced him to stand down as army chief. His successor, General Ashfaq Kiyani, deserves most of the kudos for allowing the voters their say.

To the victors: don't spoil it

Mr Musharraf's legitimacy is in shreds. He was elected by the outgoing national and provincial assemblies whose members have just been resoundingly rejected by the voters. He had this constitutionally dubious arrangement endorsed by a judiciary stacked with his appointees, having sacked irksomely independent judges who might have thwarted him.

Despite the deep-seated antagonism between the country's two big parties, and the personal hostility between Mr Zardari and Mr Sharif, the two men announced on February 21st that they intend to form a coalition government. If they manage to hold one together, the price may be Mr Musharraf's impeachment. And if that happens, the risk is that for the next few months, just as for the past few years, Pakistani politics will be dominated not by the vital issues of extremism, security and economic development, but by the future of one man, Mr Musharraf. It would be better for all if he were to quit now, and were allowed to do so with dignity, and some honour.

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Hollywood and the internet

There will be blood

Feb 21st 2008
From The Economist print edition

Hollywood is doing its best to ignore the internet. That is a big mistake

IN 1948, when only one in ten Americans had seen a TV, *Time* magazine sized up the new medium. Its quiz shows, cooking lessons and vaudeville were perfectly watchable, it said, but the films were awful. “The ancient cabbages that are rolled across the telescreen every night are Hollywood's curse on the upstart industry,” it wrote. “Televiewers, sick of hoary Hoot Gibson oaters and antique spook comedies, wonder when, if ever, they will see fresh, first-class Hollywood films.”

Sixty years have not done much to alter Tinseltown's instincts. As it prepares for its 80th Academy Awards this weekend, Hollywood is facing another new medium—the internet. Instead of using the web to get films to people, studios are still in the cabbage-rolling business: they use the web mostly as a medium to show dross, and just a handful of decent films. Yet, if the studios hope that by ignoring the web, Tinseltown can put off change, they are surely wrong (see article). Hollywood needs to confront the web—by embracing it.

In the 1940s the studios feared TV because they thought it would destroy movie-theatres. Now they reckon the internet could spoil sales of DVDs, which in America now bring in about half of their total revenues. But in 2007 American consumers spent $23.4 billion on DVDs, down 3% from 2006. Studio executives are hoping to offset the decline of the DVD with a new, fancier disc, called Blu-ray, which gives a better picture. In fact sales of the new format are tiny relative to DVDs—and the demise of HD DVD, Blu-ray's rival, this week is unlikely to change that anytime soon. Meanwhile, box-office revenues from cinemas are flat, and TV channels increasingly prefer cheap reality programming to Hollywood's flights of fancy.

Just as revenues look weak, production and marketing costs have spiralled upwards. A Will Smith or a Johnny Depp gets an upfront $20m, and then 20% of gross receipts when a film brings in more than $100m. At Disney, such payments and various add-ons have more than tripled in the past four years. And the studios are being asked to pay more to talent across the board. Having given striking writers better terms on new media, Hollywood faces a walk-out by actors in June. According to Screen Digest, the major studios' entire slate of 132 films from 2006 is set to lose $1.9 billion in cash over the five-year cycle of cinema, DVD, TV and new media.

Financing is harder to come by, too. As cash from DVDs poured in, Hollywood was able to lure money from outside investors, such as banks and hedge funds. It now sits on an estimated $10 billion of other people's money. But many of the outsiders' films have disappointed at the box office, leaving them with poor returns. Anyway, banks and hedge funds have other things on their minds just now. When Hollywood looks for new sources of money, it will probably have to offer better terms—meaning lower profits for itself.

In the circumstances you would have thought the studios would be falling over themselves to find new sources of revenue online. The success of a film like “Cloverfield”, which found its audience through marketing almost entirely on the internet, points to how the core audience for Hollywood—teenagers and young adults—is fascinated by all things web-related. In private, even Hollywood studio executives admit that their children don't buy CDs or DVDs: they download.

Although the studios spend millions on websites for every film, none sells the product itself. It is partly because the DVD business relies on big retailers such as Wal-Mart and Best Buy. To keep them happy, Hollywood is holding back most of its films from the web. In fact, DVDs get people into shops: the stores need the studios as much as the studios need the stores.

In addition, Hollywood is terrified of piracy, which is already costing it billions a year in lost revenue. One way to control online piracy is to get internet-service providers to prevent illegal downloading—which may be starting to happen. As people get used to getting films on the internet, Hollywood needs to persuade them to choose legal routes by providing top-class movie-download services.

Log on, camera, action

Every time Hollywood has offered people a more convenient way to get its films, sales have leapt. Bringing movies into the home via television, VHS and DVD built the industry into what it is today. The internet may look unfamiliar and dangerous, but it could be the ultimate home-entertainment weapon. No trip to a thinly stocked retailer, no late fees, no waiting for a package in the post; instead, on-demand access to any film you want, from the latest blockbuster to the most obscure art-house tear-jerker. Because distribution costs mostly go away, online sales are more profitable too. The internet is the industry's best hope for future revenue growth. The rightful successor to the DVD is not Blu-ray or anything else. It is the web.

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The Balkans

Kosovo, controversially free at last

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From The Economist print edition

The seventh country to emerge from Yugoslavia needs nurturing. So does Serbia

THE tiny new state of Kosovo, which declared its independence on February 17th, has been born in circumstances that are far from ideal, even by the standards of the Balkans. Its big neighbour, Serbia, refuses to accept the loss of its former province, even though almost all of Kosovo's 2m people are ethnic Albanians who are thrilled to be free. Russia is one of many countries that call Kosovo's declaration of independence illegal, and will use its veto in the Security Council to prevent it from joining the United Nations. Not even the European Union has given the new state a united welcome. Countries such as Spain, with independent-minded provinces of their own, do not like the precedent of such places going their own way.

In the case of Kosovo, however, despite all the misgivings, independence, though not ideal, is the least destabilising outcome. Given the province's bitter history, the “extreme autonomy” that Serbia claimed to offer was never going to be credible. It was in Kosovo, remember, that Slobodan Milosevic launched his Serb-nationalist campaign in the late 1980s. He went on to scrap the province's autonomy, and after the Bosnian and Croatian wars launched a brutal onslaught on its Albanian majority until NATO bombers muscled him out in 1999. After all the brutality and loss of life, it was natural for the Kosovo Albanians to demand their independence. Keeping them indefinitely in limbo as wards of the United Nations would eventually have led to a new insurgent war.

Besides, the “independent” Kosovo will for a long while in effect become a protectorate of the European Union, which is sending a large mission to take over from the UN. The EU's first job is to ensure that independence does not unleash fresh violence (see article). That requires, above all, protecting the 120,000 or so remaining Serbs. Roughly half of these Serbs live in Kosovo's northernmost tip, in practice still run by Serbia. But NATO's 17,000-odd troops will have to stay for years to protect Serb enclaves outside northern Kosovo and the sensitive Serbian religious sites dotted across the country.

The second task is to stop the quarrel over Kosovo from infecting other parts of Europe. Russia and Serbia say that Kosovo's independence sets a dangerous precedent for the Bosnian Serb republic, for Transdniestria in Moldova or for Abkhazia and South Ossetia, two breakaway enclaves in Georgia. Yet in the case of the Serb republic, such fears may well be overstated. Milosevic's brutal war and NATO's intervention to stop it make Kosovo quite different from other enclaves. In Bosnia, the Serbs have shown that they can live with the Dayton-blessed autonomy they enjoy in a Bosnian federation. As for Russian “fears” about Abkhazia and South Ossetia, these enclaves have no prospect of independence unless it is supported by Russia itself.

Now apply some economic balm

The third and, in the long run, most important job for the EU is to help get Kosovo's economy going. It is no accident that the most peaceful parts of former Yugoslavia, such as Slovenia and Croatia, are also the most prosperous. One reason for welcoming Kosovo's independence, like Montenegro's in 2006, is that it will enable attention to revert to the more pressing need of fostering economic growth. Across the Balkans, including in Kosovo, the trend has recently been encouraging, with small firms and entrepreneurs sprouting and services such as tourism expanding. But, as European economies slow, it will become a lot harder to ensure that the Balkan economies thrive.

By far the most powerful tool to help in this is the prospect of joining the European Union. Indeed, it is the hope of one day becoming EU members that has gradually lured the countries of the western Balkans to adopt democracy, ditch violence and start the long haul of building free-market economies. It is essential that the EU keep the door to membership open to all countries in the western Balkans, even if it takes years for some of them to qualify.

That applies to Kosovo. But it is even more critical for Serbia. Many Serbs are furious with the West over Kosovo. They showed this in the recent presidential election by voting in large numbers for a radical nationalist. Yet a majority backed the moderate Boris Tadic who, though opposed to Kosovo's independence, recognises that Serbia must remain on a pro-European path. The most urgent and delicate balancing act for the EU now may be in Belgrade, not Pristina, as it seeks to calm Serbia by offering the real prospect of membership.

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Northern Rock

Now make it work

Feb 21st 2008
From The Economist print edition

Nationalisation sadly made sense. But it is being done in the wrong way

Reuters

NO NATIONALISATION is cause for celebration, and that of Northern Rock is no exception. Taking the stricken British mortgage lender into “temporary public ownership” was always a least bad solution, and too many months spent beating the bushes in a doomed search for a plausible private-sector buyer instead have not improved it. Britain's Labour Party has particular problems with “nationalising” anything: the very word recalls the ranting hordes of Labour lefties whom Gordon Brown helped sideline more than a decade ago. But in the end the prime minister had no other option.

Yet in dealing with one blunder Mr Brown has made another. For nationalisation, which this newspaper has reluctantly advocated from early on for Northern Rock, covers a multitude of sins. In this case, the challenge is how to recover as fully and quickly as possible the £25 billion ($49 billion) or so that the Bank of England has lent Northern Rock since its cash dried up last summer and get taxpayers off the hook for the guarantee the Treasury has given the bank's creditors (worth some £30 billion). But how to do it?

On the face of it, there are two basic options: first, resuscitate the bank as a viable, profit-making institution until the taxpayer is repaid and Northern Rock returned to the private sector; or, second, run the Rock down, selling its assets and collaring the cash for the public purse. That choice is (as we shall explain) not quite so stark, but Mr Brown has definitely chosen the first course. Proclaiming “business as usual” and predicting not just repayment but even a possible profit for the taxpayer at the end of the day, he wants to rebuild the Rock.

Such a course plainly might maximise returns to taxpayers, though this cannot be guaranteed. The bank's new bosses may yet prove to be no better than its old (who were once feted for their innovation in transforming a sleepy old building society into a securitisation dynamo). An even bigger danger is the threat Northern Rock will now pose to competition. Britain's banking industry, which has just reported dreadful results, will not welcome a state-owned mortgage lender galumphing around, luring depositors into government-backed deposit accounts (gilts in all but name, yet offering fatter rates) and using that advantage when it lends. The deal still has to get past the European Union's competition commissioners (though they seem more likely to bark than bite).

Not the best option

The suspicion is that the prime minister has gone for this option because it will cost the fewest jobs and

repossessions and will put off any day of reckoning. The best argument in Mr Brown's favour is that a forced firesale would be even worse. If the Rock's mortgages are sold off in a hurry and its franchise, staff and branches dismantled pell-mell, the taxpayer would lose out. Nobody would pay much for the assets on offer.

Yet that logic seems faulty on two levels. First, a sell-off of some sort has several clear advantages over Mr Brown's “business as usual”: it would distort competition less and remove the temptation, for a government facing an election in two years, to manipulate firings and foreclosures with one eye on the polls. State-owned banks have a rotten record for a reason. And second, the sell-off need not have been rapid. Northern Rock's new managers could have been told to think about their job more as that of a bankruptcy administrator—the task being to discharge its liabilities over a reasonable space of time. Such an approach would have removed any danger that the managers would dump assets; but it would have focused their minds on something other than profit maximisation and the reputation of their political masters.

Mr Brown threw a lifeline to Northern Rock in September in order to protect the rest of the banking system from the recklessness of a single firm. Having safeguarded the system, he should not now distort it through unfair competition.

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On Afghanistan, Iraqi Kurdistan, Nicolas Sarkozy, Gaza, American populists, political correctness

Feb 21st 2008
From The Economist print edition

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Overstretched over there

SIR – You say that the American army's present operational-tour length of 15 months allows troops to gain invaluable experience ("Friendly fire in Afghanistan", February 2nd). By contrast, the British Army follows a system of keeping tours at six months that is based on studies from the second world war which found that operational peak skills cannot be maintained after six months without a suitably long period of rest.

The studies were mostly American and concluded that a failure to observe the six-month limit impaired the effectiveness of military units, leading to more casualties, both physical and (as later identified) mental. The six-month limit is one of the reasons why British forces, like the United States Marines, are not suffering so badly from divorce rates and mental-health issues, not to mention casualties, compared with their longer-serving peers in the American army. Britain would be well advised to look at the effects of longer tours on its soldiers before adjusting the tours' length to fit a political requirement perceived as an easy win.

Gary Doyle
Zurich

SIR – Regarding the arguments among NATO members about troop strength in Afghanistan, I continue to be amazed that nobody ever discusses the Soviet Union's debacle there more than two decades ago. If a superpower that was immediately next door could put 100,000 troops into Afghanistan for ten years and still ultimately retreat in defeat, what are the lessons for NATO?

Rob Tyrrell
Seattle

SIR – I believe that history shows the Afghans will always fight for their country and way of life. That is what they are doing now. What keeps the struggle alive is not the Taliban but the foreign forces on Afghan soil. There will never be "normality" in Afghanistan until every last foreign foot is removed from Afghan soil. If it takes 30 or more years the Afghans will fight and never surrender.

Arthur Bonner
Istanbul

The word from Kurdistan

SIR – You gave an inaccurate description of the status of press freedom in Iraqi Kurdistan and what the future holds ("How governments handle the news", February 9th). Far from working on a "restrictive law", the Kurdistan Regional Government is determined to develop a progressive, forward-looking press law that will be a model for all of Iraq and, dare we say, other parts of the Middle East. The "law" to which you perhaps referred was a draft proposal that had been rejected because it was deemed too restrictive. Now we are starting anew.

The Kurdistan Regional Government has sought frank and unblemished suggestions and guidance from respected international organisations like the Committee to Protect Journalists and the Overseas Press Club to construct a modern press law that promotes free speech and ensures professional journalism, one that our journalists and our citizens deserve.

Qubad Talabani
Representative to the US
Kurdistan Regional Government
Washington, DC

Wage claim

SIR – You state that Nicolas Sarkozy awarded himself a big pay rise ("The unpopular president", February 9th). This is misleading. Until Mr Sarkozy's election, previous French presidents were paid a lower salary than their ministers, but this was augmented by the availability of secret funds that were not divulged to the general public and completely uncontrolled. In his quest for transparency, Mr Sarkozy got rid of the funds and asked an independent body to assess a suitable salary. He now earns the same as his prime minister.

Hubert Vitte
Bordeaux

A conundrum

SIR – I am one of those confused and frustrated Israelis (the majority, apparently). Morally, I feel very uncomfortable about the policy of inflicting human suffering upon ordinary Gazans as leverage to convince their leaders to change policies. I could live with an uncomfortable consciousness if I was convinced this policy worked and we avoided dozens of Israelis being killed over the years by daily barrages of rockets from Gaza.

You maintain, however, that "Israel's policy of punishing the Gazans in the hope that they would get rid of Hamas...was not only morally wrong, but has also failed" ("Hamas won't go away", February 2nd). If this policy is morally wrong and failed with relation to the Islamists in Gaza, how do you explain your support for punishing Iran if it does not suspend its uranium enrichment? You argue there that "the ayatollahs would have to explain to ordinary Iranians why they should pay such a high price in prosperity forgone" ("Has Iran won?", February 2nd). Are morality and logic now also a matter of geography?

Michael Shaham
Ra'anana, Israel

Phraseology

SIR – Exactly when did "populist" enter your style guide as the preferred all-purpose pejorative (Lexington, February 9th)? Given that neither John Edwards nor Mike Huckabee have come anywhere near winning their parties' nomination, it is far from clear that they are even "popular", let alone "populist".

Even assuming that they are popular, what is the objective characteristic (with the emphasis on objective) that would transmute them from being good, wholesome popular candidates into nasty, wicked populist ones? In the absence of an objective definition, "populist" seems to be nothing more than a hollow term of abuse that *The Economist* hurls at anyone whose opinions are at odds with its own. May I suggest that in future you simply describe such people as "evil". It is easier to pronounce than populist and uses less ink.

Stephen Morris
Coorparoo, Australia

SIR – So, the possibility of a Huckabee presidency would give you pause because of his "literalist faith that sometimes blinds him to basic science" ("Half-way there", February 9th). I admit to being a co-delusionist in this matter, but literalism is only a matter of degree. Besides, most of us American Christians find Mr Huckabee's populism much more problematic than his literalism.

Gray Bullard
Concord, North Carolina

A matter of text

SIR – I spotted a small outbreak of PC-speak in your issue dated February 9th. You made a reference to Hillary Clinton's “spokespeople” (“A fighter in search of an opponent”), when “spokesmen” will do just fine; and wrote about Silvio Berlusconi offering committee “chairs” to the opposition in parliament (“They're off, again”), when chairmanships is the correct usage.

Just thought I'd let you know, so you can avoid an infestation of politically correct English, as opposed to the correct English we like to read.

M. J. Smith
High Wycombe, Bucks

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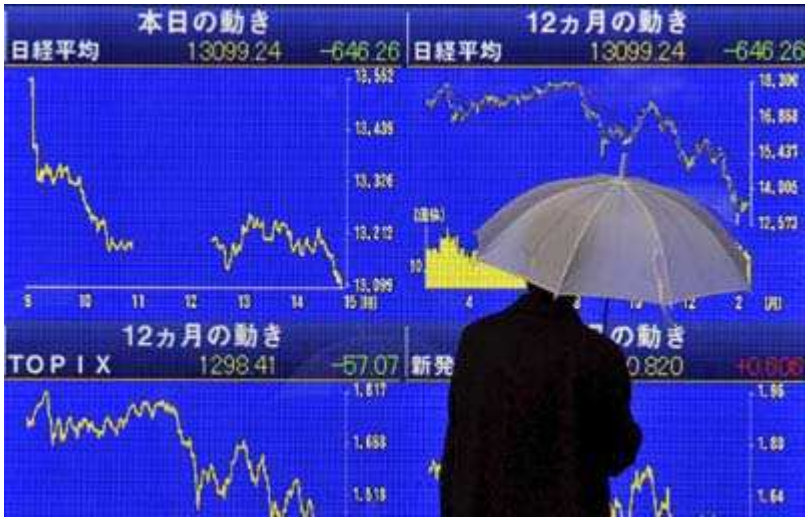
Japan's pain

Why Japan keeps failing

Feb 21st 2008 | TOKYO
From The Economist print edition

How the politicians are to blame for the failure of Japan's recovery

AP



TEN years ago Japan was on the point of financial and economic meltdown, with a political establishment utterly incapable of facing up to the crisis. Those Japanese who cared coined a not altogether pleasing English phrase: “Japan passing”, implying not only that the world's second biggest economy was being passed by in a fast-changing world, but also that Japan could no longer even be taken seriously. A headline in *The Economist* at the time tried to sum up the situation more pithily: “Japan's amazing ability to disappoint” (see article).

Until recently, that dreadful time could be regarded as an awful nightmare from which the country had woken up, for Japan seemed to be starting to live up to expectations. A razzle-dazzle prime minister, Junichiro Koizumi, came to office in 2001, appearing to bring profound change both to the political establishment and to its ability to deal with economic problems which had festered since Japan's asset bubble burst in 1990.

Mr Koizumi forced banks and companies to clear up piles of bad loans. Companies, thus unburdened, started to make money once more, and from early 2002 the economy began to grow again. Mr Koizumi appeared to have weakened the special interests—farmers, the construction ministry, senior bureaucrats—to which his ruling Liberal Democratic Party (LDP) had long been in thrall and which had supported its near-unbroken rule over the past half-century. In effect, Mr Koizumi declared war on the old-style LDP.

Voters loved it. Under Mr Koizumi's banner of market-minded reform, they delivered a stunning general-election victory to the LDP and its coalition partner, New Komeito, in September 2005. When Mr Koizumi retired a year later, there was a widespread belief that Japan was set fair for economic modernisation.

Yet once more there is talk of “Japan passing”. The stockmarket has fallen alarmingly since last summer, and has been in open rout for much of 2008 (see chart). Measured by the Nikkei 225 share index, Japanese shares are 27% below last year's July high: deep bear-market territory. Share prices are now back to their levels of September 2005—not even half where they stood 20 years ago. In January foreign investors pulled record amounts out of the Japanese stockmarket. Ask any money

manager: Japan still has an amazing ability to disappoint.

The latest doubts concern the robustness of Japan's four-year recovery, during which the economy has grown at a remarkably steady 2% or so a year. Though the most recent GDP estimate, for the last quarter of 2007, suggests above-average growth, many economists point out that the series is notoriously volatile, business investment has probably been exaggerated, and the quarterly growth figure will therefore very likely be revised downwards. Economists at Goldman Sachs said in late January that the economy was already in recession; others who are not so sure claim it is a close-run thing.

Meanwhile, political chaos has reigned since last summer. It has unseated one prime minister, Shinzo Abe, who succeeded Mr Koizumi but resigned under nervous and physical strain in September 2007. And it has ensured only the vaguest grip on power for his successor, Yasuo Fukuda. The chaos was set in train when the opposition Democratic Party of Japan (DPJ), led by Ichiro Ozawa, became the dominant party in the upper house of the Diet (parliament) last July after elections for half the chamber's seats. It has now brought the impetus for growth-boosting reforms, or indeed for any joined-up policymaking at all, to a halt.

So now the LDP's Diet-affairs chairman, Tadamori Oshima, responsible for pushing through Mr Fukuda's agenda, such as it is, despairs that “investors and political establishments around the world take one look at Japan today and conclude that we politicians are incapable of deciding on anything, not even whether to put one foot in front of the other.” With foreign investors selling out, says Mr Oshima, Japan is fast becoming as irrelevant as it was a decade ago. He asks this British correspondent to prescribe a decent *shinguru moruto*—single malt—for his depression.

Despair is spreading among the political class responsible for the mess. If the opposition deplored the “absence of a framework to sustain economic growth”, you might take it with a pinch of salt. But the admission comes from none other than the economy minister, Hiroko Ota, who for good measure says that Japan can no longer be considered a “top-tier” economy. Although she identifies the problem correctly, she has disappointingly little to say about how to solve it.

Demographics darken Japan's prospects further. Its population is greying faster than that of any other big economy, so the old will become an increasing burden on workers. Today, one-fifth of Japanese are over 65; by 2015 the proportion will grow to one in four, or about 30m. Now, with Japan's birth rate well below replacement, at 1.32, and with little immigration to speak of, the population of 127m has already started to shrink and will fall each year by about 0.6% over the next half-century. It is predicted to drop below 100m by mid-century. Already, rural regions are emptying, and the shutters are closing on the centres of more and more small towns. Without robust economic growth, Japan faces pain, especially since the government has racked up high levels of national debt in an attempt to spend its way out of its post-bubble slump.

The bureaucrats' blunders

Even though companies are far sounder than they were a decade ago, with fewer debts and more focused operations, Japan's productivity is still pitifully low. A lack of investment is not the problem. Rather, low interest rates, an export boom and a business environment in which managers are scarcely accountable to shareholders may have generated too much of the stuff. Indeed, as Andrew Smithers of Smithers & Co points out, high investment and slow growth mean that Japan's return on new investment is around half the level in America. At least companies, notably Japan's exporters, have been making record profits. But now the impact on exports of higher oil prices, coupled with a sharp rise in the yen since last summer—a consequence largely of financial-market volatility—throws that profitability into question. That is even before considering what harm an American-led slowdown might do.

Were Japan's recovery broad-based, an export slowdown would matter less, because domestic consumption would take up the slack. Yet despite repeated predictions from economists, household spending has failed to follow a rise in business investment and exports.

The reason again lies with companies. Even where they have been making record profits, companies have hoarded their cash rather than pay more out in the form of higher wages, which have stagnated even as employment has increased. Now that a stronger yen and dearer oil are eating into profit margins, the situation may not improve soon. As a result, Mr Smithers notes, even after drawing down savings this decade, households still consume a smaller proportion of GDP than in any other rich country. It raises a question: was the path that Mr Koizumi chose to get Japan out of the economic swamp misguided, at least in part? By emphasising low interest rates (good for indebted companies but bad for savers) and low wages (ditto) to help companies out of their mess, Japan's economy has depended too much on exports and is now worryingly vulnerable to external shocks.

Politicians complain about firms' tendency to hoard cash, and urge firms to pay workers more. Yet the incompetence and unpredictability of politicians help explain the companies' caution. A year ago, for instance, in a well-intentioned attempt to crack down on predatory lending, the government all but destroyed the consumer-finance industry.

A more serious episode still started last summer, when a system for vetting new buildings was introduced in reaction to the faking of earthquake-proofing data—itself a reaction to hasty new regulation brought in a few years back. The housing ministry was unable to get new software for the new system running in time. New-building approvals ground to a halt, and new construction fell by 40%.

Slowly, matters are righting themselves—new construction in December was just one-fifth below levels a year earlier. But the extraordinary effect of a single bureaucratic bungle has been to knock 0.6 percentage points off Japan's growth. The building-standards fiasco was one reason for the reduction in the government's growth forecast for the fiscal year to the end of March, from 2.1% to 1.3%.

These costly blunders were committed even before July's elections divided the Diet; with the current political chaos, the risks of things going wrong is still higher. The incompetence of politicians and bureaucrats does not just lead to expensive short-term disasters; it also threatens Japan's long-term growth prospects.

Japan needs a mass of economic reforms—a more open climate to foreign investment, for instance, lower tariffs on imported food, fewer subsidies for farmers, freer trade, better tax treatment of foreign companies, the abolition of a welter of business subsidies, a more flexible labour market, greater fiscal rectitude (national debt is currently around 180% of GDP), more accountability by pension funds and insurance companies, further privatisation of services and much more. Takatoshi Ito of Tokyo University, who sits on the Council on Economic and Fiscal Policy, the government's advisory body that drove structural reform during the Koizumi years, has calculated the economic benefit of pursuing the reforms the CEFP advocates, and the costs of abandoning them. Pursue reform, he argues, and Japan should be able to grow at a respectable 2% a year. Abandon it, and growth will crawl along at 1-1.4%.

And crawl it will, if Mr Ito is right, because Japan has abandoned reform. Blame a political establishment of underwhelming talent and vision, and an almighty constitutional mess.

First in line for blame is Mr Abe. Though he came to office as a self-styled reformer, nothing he has ever said or done suggests an interest in improving the economy. Once in office, he seems to have calculated that Japan would chug happily along, leaving him to pursue pet nationalist themes such as inculcating patriotism in schools. A tin ear for other issues left him oblivious to a growing chorus of dismay at decaying country towns, sluggish wage growth and a growing scandal of bureaucratic incompetence and corruption in the state pension system. On top of that, Mr Abe's government, though short-lived, was dogged by a seemingly endless series of financial scandals. The LDP's upper-house defeat was the punishment. Amazingly, Mr Abe appears to think he deserves another shot at high office—at 53, he is young by the standards of Japanese politicians.

Second in line are the ancient crocodiles of the LDP. In a panic, they closed around Mr Fukuda, who at 71 is the face of experience over Mr Abe's callow youth. Under Mr Koizumi and Mr Abe, decision-making had devolved from the LDP corridors to the prime minister and even as far down as the cabinet. Under Mr Fukuda, power has flowed back to the factions and to the party gerontocrats—notably two former prime ministers, Yasuhiro Nakasone (89) and Yoshiro Mori (70) as well as Tsuneo Watanabe (81), publisher of Japan's biggest-circulation newspaper, the *Yomiuri Shimbun*. It was Mr Watanabe who arranged the

farcical secret meetings late last year between Mr Ozawa, leader of the opposition DPJ, and Mr Fukuda about forming a “grand coalition”—though he has not since bothered to inform his newspaper's readers about that.

Taking back the car keys

In effect, a generational coup has taken place, with the keys to the political car taken back by the oldies. The result is that structural change is on hold. Negotiations to lower trade barriers with other countries have slowed. Tax reform to set the budget on an even keel has been put off. A senior reform-minded civil servant says that morale among modernising bureaucrats, those that favour privatisation and more competition, has sunk. None of them, he says, now dares propose growth-boosting reforms—as they used to under Mr Koizumi and even Mr Abe—for fear of incurring the disfavour of their political masters. Meanwhile, attacks on foreign investment are on the rise again among politicians and old-guard civil servants.

Mr Fukuda understands Japan's problems better than Mr Abe did. He spelt some of them out in his policy address to the Diet's new session last month: he underlined the need to overcome labour-market rigidities that discourage women and the elderly, and discriminate against Japan's army of workers who can find only temporary jobs. He bemoaned Japan's feeble standing as an international financial centre, thanks in part to hostility to foreign investment. He stressed the importance of putting the government's rickety finances to rights, and he has since championed the cause of consumers.

Yet both allies and opponents alike believe he has neither the gumption nor the authority forcefully to push for these goals. In particular, the government already looks like missing a long-agreed target to balance the budget, before interest payments, by 2011. In the government's latest budget, for the fiscal year beginning in April, the LDP's traditional clients, farmers and road-builders, are getting goodies denied them in recent years.

Third in line for blame comes the DPJ's Mr Ozawa. His party's ranks have plenty of young politicians favouring market-driven reforms. Deploring the one-party state that Japan has largely been under the LDP since the second world war, this bunch thinks Japan would be better served by competitive parties alternating in power. Perhaps Mr Ozawa does, too. After all, nearly two decades ago when he himself was a baron in the LDP, he first launched the debate about how Japan should modernise long before the political establishment was thinking about it. Ever since he stormed out of the LDP, he has vowed to bring it down.

Reuters

The guilty men: Abe, Fukuda, Ozawa

Mr Ozawa's style, however, if occasionally brilliant, is also thin-skinned and autocratic: he does his deals in the shadows without consulting colleagues. These are hardly the right qualities for the leader of a party that makes such a great show of transparency and accountability.

Meanwhile, his mercurial character has only got more erratic. Since campaigning as the farmer's friend—admittedly a successful strategy in the upper-house elections, where rural votes carried a disproportionate weight—Mr Ozawa has come to sound like the old-style LDP bosses against whom he once turned. That unsettles the modernisers in his party, most of whom represent urban, more reform-minded constituencies.

And how else, apart from ascribing a growing erratic streak to Mr Ozawa, to explain the extraordinary about-face last November, when he switched from vowing to bring down Mr Fukuda and his government to cutting private deals with the prime minister? To the DPJ's modernisers, a grand coalition would spell doom to the party, which defines itself precisely by offering itself as an alternative to the LDP. Younger

parliamentarians have become so dissatisfied with Mr Ozawa that Yukio Hatoyama, the DPJ's secretary-general, now says that he, and not Mr Ozawa, is answerable to the party caucus. It is a hint that Mr Ozawa, at least for the time being, has agreed to cede some authority.

Yet Mr Ozawa has a gun to the party's head. He knows that a split over his leadership might cause the DPJ to crumble. And should he choose to leave (he has flounced out of parties before), a handful of parliamentarians leaving with him would mean that the DPJ would almost certainly lose its upper-house majority.

Most of all, perhaps, blame two parties bursting with internal contradictions, a constitution that never envisaged opposing parties controlling the Diet's two chambers, and a culture that treats politics as a personal, sometimes family, business, not a means of offering voters choices about how their country should be run. An election would not solve these problems, but it might at least encourage parties to tell voters what they stand for.

Lastly, the voters must take some of the blame. Ten years ago, when *The Economist* lamented Japan's amazing ability to disappoint, one shrewd parliamentarian wrote in to challenge that. The headline, he said, should have read: “The Japanese people's amazing inability to be disappointed”. A general election would at least give them the chance to start holding their politicians to a higher standard.

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The Democrats

The end draws nigh

Feb 21st 2008 | MILWAUKEE
From The Economist print edition

As Barack Obama adds two more states to his ever-growing collection of victories, only something dramatic can save the former first lady

Getty Images

Get article background

FEBRUARY 19th was yet another dismal day for Hillary Clinton's fading presidential campaign. The headline figures are bad enough. Mrs Clinton lost Wisconsin by 17 points and Hawaii (where, admittedly, Barack Obama grew up) by 52 points. This means that, with the race entering its last lap, she has now lost ten elections in a row. But bad though they are, the headlines understate her problems. Overwhelmed by defeats on many fronts, she is seeing Mr Obama's army occupying an ever-larger chunk of her home territory.

Wisconsin should have been favourable ground for Mrs Clinton. It is a classic white working-class state—a place where Americans still make things (Harley-Davidson is based there) and where 80% of the adult population earns less than $100,000 a year. The Clintonites could plausibly argue that Maryland and Virginia are atypical states because of their large populations of blacks and affluent liberals (about 40% of Democratic voters in both states claim to earn more than $100,000 a year). But there are no such excuses for losing by such a thumping margin in Wisconsin.

Mr Obama held onto his core constituencies (blacks, young people and affluent liberals) but made striking advances into Mrs Clinton's. He beat her among the Dunkin' Donuts crowd—people who earn less than $50,000 a year and lack a college education. He beat her by 29 points among white men. He beat her among all groups of women voters except those aged over 60. The exit polls show him beating her on all the most important issues—the economy, health care and Iraq. He also beat her handily on the vital question of who will be the best Democratic candidate to go up against John McCain and the Republicans in the general election.

Mrs Clinton's humiliation was compounded as the evening went on. Mr McCain used his victory speech once again to lay into Mr Obama as all flash and no substance—a foreign-policy neophyte who wants to take a holiday from history. It was as if Mrs Clinton was no longer relevant to the debate. The Clinton campaign had billed Mrs Clinton's concession speech as a major event in which she would sharpen the contrasts between herself and her opponents. But all three networks cut her off in mid-flow and switched to Mr Obama addressing a crowd of 20,000 supporters in Texas (“Houston, we've achieved lift off”).

The Wisconsin results are also a blow to Mrs Clinton's superdelegate strategy. Unless she can win huge victories in the three remaining big states—Ohio, Texas and Pennsylvania—Mrs Clinton has no chance of catching up with Mr Obama in pledged delegates. But the polls show that Mr Obama has cut Mrs Clinton's lead in Ohio from 20 points to ten in the past week and is now almost neck-and-neck with her in Texas.

So her only hope of winning is to persuade the superdelegates—some 796 party bigwigs who hold ex officio votes—that Mr Obama is a flash-in-the-pan who cannot appeal to core Democratic groups such as the white working class.

Unfortunately for Mrs Clinton, Mr Obama is now proving that he is able to appeal to exactly those voters; and on February 20th the powerful Teamsters union became the latest to endorse him. Last week the even bigger Service Employees International Union plumped for him, though Mrs Clinton still has more unions signed up to her cause. Add to this the fact that Mr Obama now outperforms Mrs Clinton in head-to-head polls with Mr McCain (he beats the Republican whereas she loses) and her argument is looking somewhat threadbare.

It is still just about possible that Mrs Clinton can recalibrate the race by scoring a knockout punch in the two remaining debates—she is much better than him as a debater—or by dredging up something that rips Mr Obama's halo from his head. But so far the vaunted Clinton machine has proved singularly inept at the “politics of personal destruction”.

The art of negative campaigning is, surely, to draw a contrast between yourself and your opponent. But Mrs Clinton has only managed to point out similarities—such as the fact that he has connections with lobbyists (just like her) or that he will not commit to public financing (unlike Mr McCain but just like her). This is tantamount to saying vote for me because we are both just as bad.

The Clinton campaign made a huge fuss about the fact that Mr Obama has borrowed (“plagiarised”) some of his stump speech from Deval Patrick, the governor of Massachusetts and a close ally. But this is an odd accusation given that Mrs Clinton has herself borrowed bits of Mr Obama's shtick about being fired up for change. Exit polls show that 54% of Wisconsin voters thought that her attacks were unfair.

The biggest problem for Mrs Clinton, however, is that her recent failures are the result of a flawed long-term strategy rather than just bungled execution. Mrs Clinton essentially ran as an incumbent—emphasising her experience, recalling the good old days of her husband's presidency, surrounding herself with Washington insiders and offering carefully calibrated appeals to various slivers of the electorate. Her chief strategist, Mark Penn, is a noted Washington lobbyist who recently published a book on “Microtrends”.

But Mr Obama grasped from the first that this is an election not about microtrends but a macrotrend—a popular yearning for change. Three-quarters of Americans think that the United States is headed in the wrong direction. Overwhelming majorities are furious with the status quo in Washington. Mr Obama used this insight not just to craft a message but also to build a political movement from the ground up, fuelled by small contributions and driven by the energy of activists. Only a dramatic upset will allow Mrs Clinton to escape from the flawed thinking that has been at the heart of her campaign.

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Texas

Hillary's last stand

Feb 21st 2008 | SAN ANTONIO
From The Economist print edition

She has to win convincingly in Texas. It won't be easy

Get article background

FOR the past 36 years, since Barack Obama was ten, Hillary Clinton has been a regular visitor to Texas. And the local demographics are surely auspicious. Roughly 40% of Texas Democrats are Hispanic, and in the previous contests Mrs Clinton has accumulated twice as many Latino votes as Mr Obama.

Her ties to the state and its Hispanic community date to 1972, when she and her then boyfriend Bill Clinton spent the summer working on George McGovern's presidential campaign in San Antonio. Mrs Clinton registered and organised Latino voters, and they have not forgotten. “She stood for us then. We stand with her now!” said Leticia Van De Putte on February 13th, introducing Mrs Clinton at a rally in San Antonio. The crowd, split evenly between whites and Latinos, gave Mrs Clinton the kind of ecstatic reception normally reserved for Obama events.

But in Texas, Latinos may not be the firewall that the Clinton campaign needs. The Obama mystique transcends cultural barriers. “God bless you!” shouted Maria Pardo as Mr Obama wrapped up his own San Antonio rally a few days later. She explained in Spanish that Latinos need a president who does what he says. “He's got words that can reach to every corner of the world,” marvelled another Hispanic lady, “and the world is waiting for him.”

Rafael Anchia, a state representative from Dallas who supports Mr Obama, points out that younger Latinos are less committed to the Clinton brand than their parents. Like other young Americans, many are inspired by Mr Obama's story and charisma. And the idea that Hispanics would be reluctant to vote for a black candidate, as suggested by one of Mrs Clinton's pollsters, is overblown. The occasional Latino voter does admit to a sense of resentment or suspicion, but these are exceptions. “The reality that I experience on a daily basis, and Dallas is a pretty good laboratory for it, is that Latinos and African-Americans will work together and do work together,” says Mr Anchia.

Demography aside, the rules help Mr Obama. The Texas Democratic Party allots delegates to state senatorial districts based partly on Democratic turnout in the 2004 and 2006 elections. The idea was to encourage participation. But the result is that more liberal districts, which favour Mr Obama, have more delegates. That means that he could lose the popular vote but end up with more delegates than Mrs Clinton.

Also, Texas has an amazingly complicated way of divvying up the spoils. Of its 193 elected delegates, about two-thirds will be allotted mainly based on the results of the primary vote. The remainder are assigned partly based on caucuses—lengthy meetings, where speeches are made, held after the polls close on election day. This system gives an advantage to the candidate who is best organised on the ground. Mr Obama has always bested Mrs Clinton on that front, and has won in every caucus state but one.

A few weeks ago, Mrs Clinton had a healthy margin in Texas polls. The most recent ones show it has narrowed or even evaporated. But at least the candidate has confronted trouble in Texas before. In her memoir she reminisces about how the McGovern staffers would sometimes drive up to Austin for beers at Scholz Garten, a traditional Democratic hangout. There they spent hours “trying to figure out what else we could do in the face of ever-worsening poll numbers.” Mrs Clinton could use another pow-wow at

Scholz's. But she will have to fight for a table. On February 19th, as the results from Wisconsin came in, the bar was overrun by a new set of bright young campaigners—Mr Obama's supporters. And Mr McGovern, of course, lost in a landslide.

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On the campaign trail

Primary colour

Feb 21st 2008
From The Economist print edition

A delegate matter

“It's still the old guard, the white men. They always want to control the outcome. But this time, they won't be able to do it.”

A superdelegate on the fact that at least 46% of superdelegates are white men, who make up only 28% of Democratic voters. The Politico*, February 15th*

Never surrender

“I campaigned with my husband until he wrapped up this nomination in June [1992], I thought it was fun. I had a good time. I am prepared to go the distance.”

Hillary Clinton is in for the long haul. CNN.com*, February 16th*

Use your words

“If you're going to be talking about the value of words, the words ought to be your own.”

Howard Wolfson, a spokesman for Mrs Clinton, accused Barack Obama of plagiarising a speech by Deval Patrick, Democratic governor of Massachusetts. CNN.com, February 18th

Stay calm

“There will be chaos at the convention. If you think 1968 was bad, you watch: in 2008, it will be worse.”

Doug Wilder, former Democratic governor of Virginia, predicts there will be trouble if superdelegates end up choosing the candidate. “Face the Nation”, CBS, February 17th

You know I'm no good

“There is a greater chance that I would dye my hair green and get tattoos all over my body and do a rock tour with Amy Winehouse.”

Mike Huckabee on rumours that he plans to run for the Senate once his presidential campaign ends. Newsweek*, February 25th*

Thank you for the music

“If word gets out to Stockholm that we're using Abba music, then there'll be a worsening in US-Swedish relations.”

John McCain will not be using Abba's “Take a Chance on Me” as his campaign music. TimesOnline.co.uk, February 19th

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The Republicans

McCain turns his sights on Obama

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The Republican nominee presumptive mulls an even bigger challenge

Get article background

FOR John McCain, winning primaries is no longer just about heaping up delegates. Every triumph tastes good, of course. Capturing Wisconsin and Washington state by hefty margins this week pushed the senator from Arizona even closer to the 1,191 delegates he needs to confirm himself as the Republican presidential candidate in November. But since his eventual nomination is already all but assured, what matters most is that each victory is followed by a victory speech. And that lets him warn a large audience that Barack Obama has no clothes.

On February 19th Mr Obama's tenth consecutive win over Hillary Clinton made it yet more likely that he will be the Democratic nominee. This is bad news for Mr McCain, since Mrs Clinton would surely be easier for him to beat. Half the country already dislikes her. And although Mrs Clinton could out-wonk Mr McCain in any debate, he could crush her simply by asking voters whose character they admire more.

He is a war hero; she is not. (To be fair, unlike her husband, she claims she tried to join the Marines but was rejected for her poor eyesight.) He freely admits mistakes; she is bizarrely incapable of doing so. He often takes brave and unpopular stands; she is cautious and poll-driven. He has a reputation for telling the truth; she, to put it mildly, does not. And the best thing, from Mr McCain's point of view, is that he would not need to make any of these charges himself, because a legion of freelance Hillary-haters would do it for him.

Devising a strategy to shoot down Mr Obama is much harder. He is plainly nice, intelligent and (so far) almost scandal-free. His track record is so brief that there is not much to attack. Yet Mr McCain gave hints in his victory speech this week as to how he might do it.

“I'm not the youngest candidate,” growled the 71-year-old senator, “but I am the most experienced.” Without naming Mr Obama, he asked whether the next president will have the judgment and strength of purpose to deal with turmoil in Pakistan and Cuba, or whether America will “risk the confused leadership of an inexperienced candidate who once suggested invading our ally, Pakistan.”

Mr McCain promised to fight “to make sure Americans are not deceived by an eloquent but empty call for change”. In other words, Mr Obama makes wonderful speeches but offers the same old Democratic policies. He talks movingly about the need to make hard choices, but it is hard to think of any he has actually made. He talks of moving beyond partisanship, but according to the *National Journal*, a non-partisan magazine for Beltway types, he had the most liberal voting record in the entire Senate last year.

This is Mr Obama's greatest vulnerability, argues Peter Wehner, a former aide to George Bush: that he is “a completely orthodox liberal...in a nation that is not”. Other Republicans concur. Mr Obama offers a zillion handouts (tax breaks for college and for “patriotic” private firms, $150 billion for green energy, and so on) but no credibly painful plan to fix Medicare or Social Security. He kisses up to organised labour by scorning free-trade deals and seeking to deny workers the right to a secret ballot on whether to unionise. In short, though he appeals to the American centre, he is noticeably to the left of it.

Mr McCain will doubtless find other lines of attack. Though Mr Obama's manner is sunny, the America he describes in his speeches is unrecognisably grim. It is a country where poverty is “abject” and parents “compete with their teenagers to work for minimum wages at the local fast-food joint”. It is a country that Mr Obama's wife said this week she was never really proud of until now—a most unwise thing for a candidate's wife to admit. Mr McCain will find it dauntingly hard to beat his younger, sexier, honey-tongued rival. But not impossible.

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Mormons

Gnashing their teeth

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The latter-day saints are angry with the Republicans

“POLYGAMY”, the comedian Stephen Colbert quipped, “comes from the Greek ‘poly’ meaning multiple and ‘gamy’, meaning reasons not to vote for Mitt Romney.” Now that the Mormon former governor of Massachusetts has abandoned the race and endorsed John McCain, will the Church of Jesus Christ of Latter Day Saints—an important voting-group in several states—follow his lead?

Utah, the centre of the Mormon universe, preferred George Bush to John Kerry by 46 points in 2004. But Mormons took a beating during Mr Romney's run. In a Pew poll from December, a quarter of Americans and 36% of white evangelicals expressed reservations about voting for one. A study from Vanderbilt University concluded that conservative Christians cited unrelated concerns about Mr Romney to mask their discomfort with his faith.

Mormons naturally invested in Mr Romney, donating to his campaign and voting for him in droves: 90% of Utah Republicans plumped for him. Half of Mr Romney's supporters in the Nevada caucuses, which he won convincingly, were from his church.

Mike Huckabee took Iowa and the South, however, areas filled with evangelicals whom Mr Romney needed to win. “In Utah you could almost hear the wailing and gnashing of teeth,” says Kirk Jowers, head of the University of Utah's Hinckley Institute of Politics. In a poll taken just after Mr Romney left the race, only 30% of Utahns said they would vote for Mr McCain; 25% said they would choose Barack Obama.

Utah's political pundits agree that the conservative state will prefer Mr McCain. But the margin may be smaller as some Romneyites switch sides or stay at home. In other Mormon-rich states, particularly Nevada, which is a swing state, depressed Mormon turnout could hurt Mr McCain a lot more.

Much depends on the Democratic nominee. Hillary Clinton is reviled; Mr Obama is not. Much also depends on Mr McCain's eventual running-mate. Many Mormons believe Mr Huckabee used Mr Romney's faith against him, as when the former Baptist minister asked a reporter “Don't Mormons believe that Jesus and the devil are brothers?” If Mr Huckabee is on the Republican ticket, there could be a latter-day revolt.

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America's most vengeful prosecutor

You've got mail

Feb 21st 2008 | AUSTIN
From The Economist print edition

The death penalty's favourite district attorney resigns

AP

The biter bit

HARRIS COUNTY, which encompasses Houston, is the most populous in Texas. Its district attorney is among the most powerful prosecutors in America. During seven years on the job, Chuck Rosenthal earned a ferocious reputation. His office prosecuted hundreds of thousands of cases and asked for the death penalty more often than did any other county in America.

But for such a moralist, Mr Rosenthal had big personal lapses. On February 15th he resigned after weeks of controversy concerning e-mails that included love notes to his secretary and racist jokes. Mr Rosenthal stepped down hours after a rival filed a lawsuit that would have forced him out. “The particular combination of drugs prescribed for me in the past has caused some impairment in my judgment,” he wrote.

Many Houstonians agreed with Mr Rosenthal's assessment of his judgment. Over more than 30 years at the DA's office, he often ran into trouble. He set off firecrackers in a stairwell and endorsed one judge because “she looks great in jeans.” In 2002 he went before the Supreme Court to argue in favour of upholding Texas's ban on gay sex. The eventual ruling, *Lawrence v Texas*, is considered a landmark for gay rights.

Most troubling was Mr Rosenthal's enthusiasm for the death penalty. He considered it “God's law”, and asked for it whenever possible. His most controversial case came in 2001, when Andrea Yates drowned her five children in her bathtub. She claimed that her children “were doomed to perish in the fires of hell” and was eventually found not guilty by reason of insanity.

Though thwarted in that case, Mr Rosenthal got 36 people sent to death row. Since America resumed the death penalty in 1976, Harris County alone has accounted for a quarter of Texas's executions. Rick Perry, the Republican governor, will probably replace Mr Rosenthal with another judge who supports the death penalty. Almost anyone, however, will be more moderate.

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Surveillance

Own goal

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Is American intelligence suffering?

WHO would dare to kill off anything so obviously virtuous as the “Protect America Act”? Nancy Pelosi, speaker of the House of Representatives, did just that last week. The result has been a fiery row over American surveillance policy—and a big political headache for Ms Pelosi's party.

The act, which was passed in August and expired on February 16th, authorised American intelligence officials to eavesdrop on foreigners without having to ask for warrants, even when the targets were communicating with American citizens. George Bush began doing this without congressional approval shortly after September 11th 2001; but after the *New York Times* exposed the programme, stoking much liberal outrage, Congress helpfully stepped in to give its permission.

The law, however, was only temporary. With the need for an extension drawing near, President Bush insisted the Democrats tack on retrospective immunity for the telecommunications companies that had earlier co-operated with his warrantless dragnet. (These firms now face lawsuits for having done so.) House Democratic leaders refused and left for a recess, leaving the law to expire.

Mr Bush pounced, claiming that America had been left “more in danger of an attack”. His intelligence chief claimed that America's information-gathering capabilities had begun to deteriorate as soon as the law expired. Robert Novak, a conservative commentator, accused Democrats of pandering to rich trial lawyers at the risk of American lives.

In reality, the statute's demise has done little practical harm. Existing wiretaps can continue. American spies can also tap away as long as they get permission from the attorney-general; warrants, which have to be signed by a judge, can be obtained subsequently. (Preparing warrant applications, even after the fact, is time-consuming, but that should not be an immediate problem.) And telecommunications firms worried about lawsuits are no worse off than they were before.

The political fallout, however, is much more significant. Polls show that Americans now trust the Democrats as much, if not more, than Republicans on national security and terrorism—a striking change from the position earlier in the decade. The Republicans are desperate to reverse that trend, not least because their presumptive presidential nominee, John McCain, will doubtless have much to say about the war on terror. The Democrats' balkiness will only help Mr McCain's case. They will, of course, end up passing eavesdropping legislation much along existing lines; but every day of delay will hurt them.

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Cities and hospitals

Mayo with everything

Feb 21st 2008 | CLEVELAND
From The Economist print edition

What happens when a clinic takes over a metropolis?

VISIT Rochester, Minnesota on an average winter morning and the frozen streets are virtually empty. But inside the Mayo Clinic's lovely Gonda building, designed by Cesar Pelli, the city throbs with life. The hospital's lobby is filled with patients and visitors. At noon, underground walkways teem with nurses and doctors buying lunch. In the evening fleets of buses take them home. Visitors retreat to nearby hotels and restaurants, built around Mayo especially for its guests.

All this is an extreme example of a growing phenomenon. After the 20th-century factory town, such as Flint, Michigan, comes the 21st-century hospital town. Rural hospitals are often the main employers in their communities. Even Flint is trying to re-position itself as a medical hub. But a select few cities have entered the era of the mega-hospital. The most dramatic are Rochester, a medium-sized city where Mayo has long been a star business, and Cleveland, Ohio, a rustbelt city that has seen its hospitals boom and one, the Cleveland Clinic, become a new economic force. Each hospital is a behemoth: Mayo's revenues in 2006 totalled $6.3 billion, Cleveland's $4.4 billion.

Their success stems from medical innovations and excellent care. The Cleveland Clinic is America's best heart hospital; Mayo tops the rankings for neurology, digestive disorders and endocrinology. Cleveland and Mayo have also expanded through mergers with other hospitals to form regional health systems. Cleveland's system includes nine community hospitals and three affiliates in Ohio. Mayo's system extends into Wisconsin and Iowa. Ambitious investment has helped them grow, too. When two gleaming new buildings are completed in Cleveland, the clinic will cover about 12m square feet (1.1m square metres), almost twice the size of the Pentagon. Mayo's Rochester campus is bigger still, at 15m square feet.

With this growth has come a steady increase in staff. Cleveland's 37,350 employees make it Ohio's second-largest private employer, after Wal-Mart. Mayo is Minnesota's biggest private employer, with a staff of more than 30,000 in Rochester and several thousand more who work for the regional health system. “One thing to note”, says the Cleveland Clinic's chief executive, Delos Cosgrove, “is that health-care jobs are good jobs.” Another thing worth noting is that neither the Cleveland Clinic nor Mayo has been touched by the national push to unionise nurses.

The size of the health giants ensures that their reach extends far beyond the examination room. Each, for example, has made its city something of a destination for “health tourists” (people who come for operations or check-ups) and conferees. Rochester received 2.5m visitors in 2007; about 70% of these came to visit Mayo. At the last count, Rochester had the same number of hotel rooms as nearby Minneapolis, which is about four times as large.

The Cleveland Clinic has taken on many of the traits of a hospitality group. Its main campus served almost 3m patients in 2006, bending over backwards for them. A posh international centre offers translators, coffee and foreign newspapers. The clinic owns three hotels and lets the InterContinental hotel group manage them. The most expensive hotel, built in 2003, has space for conferences and plush suites, popular among royal patients from the Middle East.

In addition to importing visitors, each hospital has turned its city into an exporter of sorts. Each is spinning off technologies and start-ups. Mayo has hospitals in Florida and Arizona. The Cleveland Clinic has begun to offer management expertise, for a fee, to a handful of hospitals around the country. It already has facilities in Florida, a “wellness centre” in Toronto and projects under way in Abu Dhabi and Vienna. Cleveland's manufacturing base may have declined, but its main commodity in future may be cardiac expertise.

For all this activity, community relations remain a work in progress. Mayo has dominated Rochester for so long, donating to a host of local programmes, that the mayor—himself a former Mayo employee—calls

the clinic “a gorilla, but…a very nice gorilla”. The Cleveland Clinic's relationship with its city is more complex. Cleveland is much larger than Rochester and much more racially diverse; the city has an industrial hangover and the attendant headaches of poverty and urban decay. The clinic itself sits in a poor neighbourhood where few employees live, preferring to drive in from the suburbs.

For years the clinic played only a minor role in the area. Under Dr Cosgrove, who became its chief executive in 2004, this has changed. The clinic is working with local groups to support redevelopment and to open community health-centres. Chris Warren, the city's regional development chief, says the clinic's relationship with Cleveland is “more positive than it has ever been”.

Mayo and the Cleveland Clinic seem likely to grow, but neither is immune to the challenges that face the rest of America's hospitals, such as low Medicaid reimbursement rates and labour shortages. The latter is a particular problem. Doctors are relatively easy to recruit to such a place. Harder to fill are the thousands of other jobs, from nurses to lab technicians.

Much energy is directed towards education, through gifts to local schools and programmes to teach students about careers in health care. The premise is that the hospital cannot succeed without a successful city. “Our future”, Dr Cosgrove has said, “is intimately tied with the future of Cleveland.” And, increasingly, vice versa.

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Lexington

The newest frontier

Feb 21st 2008
From The Economist print edition

Immigrants are transforming some surprising parts of America

Illustration by Kevin Kallaugher

MILWAUKEE is a striking example of how much America owes to German immigrants. The city is a paradise for beer-swillers and sausage-scoffers (it was the scene of the “sausage summit” between Bill Clinton and Helmut Kohl in 1996). The grandest hotel is the Pfister, the local theatre is the Pabst, and one of the main streets is North Teutonia Avenue. The phone book lists 40 pages of Schmitts and Schmidts.

And yet today this frozen chunk of Greater Germania is being transformed by people from much sunnier climes. Milwaukee's 80,000 or so Hispanics make up almost 15% of the population. A company called El Rey Mexican Products owns a tortilla factory and five shops that sell everything from hot sauce to Mexican-bottled Coca-Cola. There are several local bilingual newspapers, including *Voces de la Frontera*. Pentecostal churches are popping up in disused stores and offering fiery services in Spanish.

When people think of recent American immigrants—particularly Latino ones—it tends to be in terms of a handful of states (California, Texas, New York, Illinois and Florida) and a handful of gateway cities (New York, Los Angeles, Houston, Miami, Chicago). But this is a habit that needs to be broken. One of the most striking demographic trends of the past couple of decades has been the dispersal of America's immigrant population. Immigrants are settling in small towns as well as big cities, in suburbs as well as inner-city ghettos, in rural areas as well as metropolitan ones, in the great American interior as well as on the coasts. The proportion of Mexican-born people living in states other than the four border states plus Illinois increased from 10% in 1990 to 25% in 2000.

This is producing some of the most dramatic demographic changes in recent American history. The once lily-white Midwest and the once black-and-white South are becoming prime places for immigrants (eight of the ten states with the biggest growth in the foreign-born Mexican population are in the South, for instance). There are thriving Latino enclaves in such unlikely places as Dalton, Georgia; Garden City, Kansas; Storm Lake, Iowa and Nashville, Tennessee. Between the 1990 and 2000 censuses, the Hispanic population of Franklin County, Alabama, has grown by 2,193% and Gordon County, Georgia, by 1,534%.

This demographic revolution—analysed in fascinating detail in “New Faces in New Places”, a book edited by Princeton University's Douglas Massey and just published by the Russell Sage Foundation—goes a long way towards explaining why immigration has become such an explosive issue in national politics. Large

numbers of Americans who have never encountered Latinos except in Hollywood are now coming face-to-face with them. And large numbers of poor whites and poor blacks across the country find themselves having to compete with immigrants who are willing to work for lower wages in worse conditions. Small towns across the country are now encountering casual labourers hanging out on street corners and school children who cannot speak English.

This revolution can be partly explained by sheer numbers. More than 60m Americans—one in five of the population—are either immigrants or the offspring of recent immigrants. The old gateway cities are becoming saturated. And California, in particular, is no longer the magnet that it once was. Why put up with an iffy economy and sky-high property prices when you can find a much better standard of living in the South and the Midwest? The proportion of immigrants heading to California fell from 35% in 1985-90 to 21% in 1995-2000.

But two things have clearly speeded up the revolution. The first is America's effort to tighten two of the most popular crossing-points for illegals—El Paso, Texas, and San Diego, California. Illegal immigrants are choosing instead to cross the border in Arizona and the wilder parts of the lower Rio Grande valley. And from there they are much more likely to fan out across the country rather than crowd into Los Angeles or Houston.

The second factor is the wholesale restructuring of chunks of the American economy. This restructuring is at its most dramatic in the meatpacking (slaughterhouse) and food-processing industries. Meatpacking companies have responded to international competition by shifting their operations from old industrial cities, with their heavily unionised workforces and restrictive practices, to rural areas and small towns. This has not only led to the Latinisation of the meatpacking industry, but also to the Latinisation of heartland communities that have booming meatpacking plants, such as Garden City, Kansas.

Will history repeat?

What are the prospects for these new immigrants as they fan out across the country to prepare America's food and build its houses? Will they be assimilated like the German brewers and sausage-makers who helped to create Milwaukee? Or will they be stuck in dead-end jobs in grisly meat-processing factories?

There are certainly some encouraging signs. States such as Iowa are putting out a welcome mat for immigrants who are revitalising stagnating towns and rural areas. Immigrants in non-metropolitan America are earning higher real wages than they were in 1990 and are more likely to live in houses with children. But Mr Massey, who is sympathetic to the people he writes about, also sounds some sombre notes. America's new immigrants face a much steeper ladder of opportunity than the one that faced European immigrants. Latino immigrants are poorly schooled in a country that places an ever higher premium on education. The relentless flow of new arrivals is putting downward pressure on wages. And the populist backlash against illegal immigrants is strengthening. All these issues will come to the fore as the election campaign moves to Texas and Ohio for the next two weeks.

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Cuba

The comandante's last move

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From The Economist print edition

AP

Fidel Castro has stepped down as president. But the changes that Cubans yearn for will be slow and stealthy while he remains alive

HALFWAY along Calle Obispo, a long street that links the restored colonial splendours of Old Havana to the crumbling tenements of the 19th-century city, a large red placard shouts its defiance in lime-green lettering in an arresting mixture of Spanish and English. "*No hay tregua, compay*! You understand: No Truce. *Sr Bush: este pueblo no puede ser engañado ni comprado*." ("Mr Bush: this people cannot be deceived nor bought.")

The placard advertises the museum of the Committees for the Defence of the Revolution (CDRs), the neighbourhood groups set up by Fidel Castro in 1960 to be the grass roots of his revolution, to organise services but also to inform the newly installed Communist-run state of dissent or subversion. The museum contains glass cases of revolutionary memorabilia. On the walls are blown-up extracts from Mr Castro's speeches, and a chart showing the growth of membership in the CDRs, which in 2007 reached 8.4m of Cuba's 11m people. The highlight, on the first floor, is a scale model in plaster of a typical Cuban street, the houses fronted with the Greek-revival columns that past sugar wealth bequeathed, the façades painted in turn in shocking pink, lime green, toothpaste blue, peach and lemon.

It is a remarkable exhibit of revolutionary kitsch. The museum is new, inaugurated on September 28th 2007. Yet on a recent Saturday afternoon it was empty; not one person among the throngs of Cubans and tourists strolling down Calle Obispo felt inspired to cross its threshold. With the mixture of friendly warmth and necessary opportunism that characterises Cubans nowadays, one of the bored women attendants was soon asking your correspondent's wife if she could spare a packet of antacids ("medicines are very scarce").

Mr Castro, ailing and aged 81, this week announced his retirement from the posts of Cuba's president and its "commander in chief". But his revolution has long since become a shell, a work of theatre in which the old trouper rants on even as many in the bored audience desperately want to slip away—if only they could. As the curtain comes down on Mr Castro's 49 years of rule, change is inevitable. But of what kind and at what pace is far less clear.

It was ill-health and impending mortality, not any sense of failure or repudiation, that obliged Mr Castro to issue his statement that he would not seek to retain his posts. In July 2006, facing abdominal surgery, he turned over his powers to his brother, Raúl Castro. Since then he has not appeared in public. Photographs suggest that while he has been convalescing he remains extremely frail. In November he allowed his name to go forward as a candidate for the National Assembly. But this week he said: "it would be a betrayal of my conscience to accept a responsibility requiring more mobility and dedication than I am physically able to offer."

On February 24th the new assembly is due to meet to unveil the Council of State, and thus Cuba's president and its other top officials. The council's members will be picked by the Castro brothers and a handful of senior advisers. Most Cuba-watchers expect Raúl Castro to be confirmed as the new president. Since Raúl is himself aged 76, a bolder move would be to hand the top job to Carlos Lage, a 56-year-old doctor who is the number three in the hierarchy.

Cuban officials see it as a triumph of their revolution—and a defeat for the United States—that power is being transferred peacefully and in an orderly manner within the regime. Once again, they have confounded those outside Cuba who have so often predicted the revolution's demise. Yet the country that Fidel Castro is bequeathing to his successors is discontented and all but bankrupt. The undoubted costs imposed by the American economic embargo pale beside self-inflicted problems.

When the Soviet Union collapsed, Cuba lost the patron, protector and paymaster that had allowed Mr Castro's Communist regime to survive the United States' embargo and its persistent efforts to kill or topple him. Cuba's economy shrank by around 35% between 1989 and 1993. Many outsiders expected Mr Castro swiftly to go the way of the Berlin Wall.

He responded by declaring a “Special Period” involving a mixture of drastic austerity and pragmatic economic reform. His government encouraged mass tourism and foreign investment, mainly in hotels, nickel mines, telecoms and oil exploration. It allowed farmers markets, to supplement the meagre official rations, and, for the first time since the 1960s, licensed family businesses such as restaurants (known as *paladares*) or plumbers and electricians. It also legalised the use of the dollar, tapping a new source of hard currency in the form of remittances from the million or more Cuban-Americans. State companies were given more freedom to run themselves.

Chávez replaces the Soviet Union

These measures, implemented by Mr Lage and a group of reformist economists, stabilised the economy and saw a modest return to growth. But they brought rising inequality to Cuban society, and undermined party control. In 1996 Mr Castro halted the reforms. Finally, in 2004 he declared the Special Period over and rolled back some of the changes. The dollar was replaced by the “convertible peso” commonly known as a CUC and now valued at $1.08. The welcome for foreign investment became more selective; many small businesses had their licences withdrawn.

Along with counter-reform came a political crackdown. The few dissidents on the island, supported by the United States but infiltrated by the Cuban security services, pose no threat to Mr Castro. Not so the Varela Project, a push for constitutional change led by Oswaldo Payá, a Christian democrat. The project gathered 11,000 signatures for a petition handed in to the National Assembly urging changes to the 1976 constitution to allow free elections and civil and political rights. Unlike the dissidents, Mr Payá opposes the American economic embargo and refuses help from American diplomats.

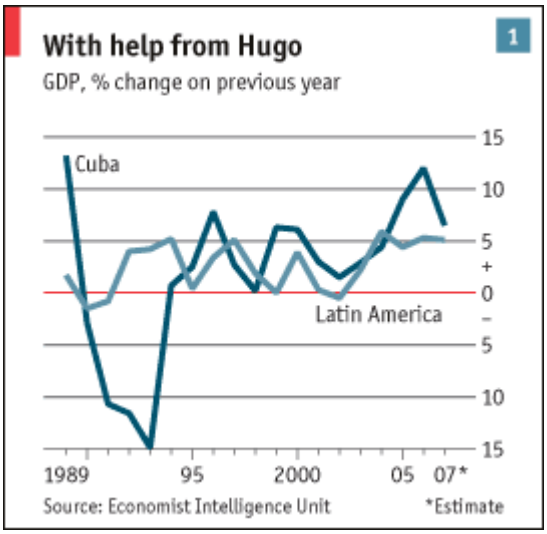
Mr Castro reached for his sledgehammer. He organised a referendum to approve a constitutional change declaring socialism “irrevocable”. And in March 2003, while the world was distracted by the American invasion of Iraq, the government arrested 75 opponents, most associated with the Varela Project, and in summary trials sentenced them to long prison terms. When coincidentally three Cubans hijacked a ferry in a desperate attempt to get to Florida, they were executed.

Cuba's shuffle towards the market was far more timid than the bold steps taken by China or Vietnam. Mr Castro felt able to retreat from it because new allies appeared. Venezuela's Hugo Chávez has gone some way towards replacing Cuba's lost Soviet sponsor. Under a web of barter deals, up to 20,000 Cuban doctors, sports trainers and security specialists work in Venezuela; in return Mr Chávez has provided the island with 92,000 barrels per day of oil, and with other aid worth some $800m in 2006 and $1.5 billion in 2007, according to a recent book by Germán Sánchez, Cuba's ambassador in Caracas.

With Naomi Campbell, a British fashion model, in tow Mr Chávez turned up in November to inaugurate a mothballed Soviet-era oil refinery near the southern city of Cienfuegos, completed with Venezuelan money. He also paid for 100 three-room houses for the refinery workers, and has offered aid to restart defunct industrial plants, such as a rusting fertiliser factory near the refinery.

Venezuelan aid has boosted economic growth (see chart 1). It has also allowed the government to overhaul the electricity system (as well as replacing 52m incandescent light bulbs with energy-saving ones). A few years ago, power cuts were frequent and lengthy; now they are rare. Along with Venezuelan aid has come Chinese credit. Cuba is gradually augmenting its fleet of thirsty Soviet buses and trucks with new, more fuel-efficient Chinese models.

Mr Chávez may still believe in Mr Castro's revolution, but talk to ordinary Cubans and grievances well up. Top of the list comes low wages and high prices. Salaries typically range from 400 (non-convertible) Cuban pesos a month for a factory worker to some 700 for a doctor. But that amounts to only 16-28 CUCs ($17-30) at the unofficial (but legal) exchange rate. Pesos are good mainly for buying the subsidised official rations, handed out through the CDRs. Each month these comprise 5lbs (2¼ kilos) of rice per person, half a litre of cooking oil and, when available, beans, sugar, sardines, pork, chicken, soap and toothpaste. This lasts only a week or so.



Other things can be bought nowadays in Cuba—but at a price. At the bustling Cuatro Caminos market hall near Havana's main railway station, onions cost 5 ordinary Cuban pesos each, a pound of beans costs 10 pesos and a similar quantity of chicken and bacon go for 23 pesos.

To make ends meet, Cubans are forced to rely on a vast informal economy. It is greased by remittances from abroad, which are estimated at between $500m and $1 billion a year. “Everyone has their business on the side,” says a transport inspector in Aguada de Pasajeros, a dusty farming town of small one-storey houses that would not look out of place in the poorer countries of Central America.

These sidelines range from market gardens to shoemending, or to running a taxi service using the horses and carts that are ubiquitous in places like Aguada. Rodrigo, an engineer in a small town in central Cuba surrounded by cane fields, says there is no point in practising his profession for a pittance. Instead, he deals in second-hand clothes, and raises chickens and pigs. He dives into the bedroom in his two-bedroom house and shows off an attaché case full of euros and CUCs. In any other country, he would be a successful businessman. He and his partner, a psychologist, are desperate to leave Cuba.

Since the informal economy is officially illegal, it is wrapped around by harassment, bribes and bureaucracy—what Cubans call the “internal embargo”. It also breeds absenteeism, cynicism and ingenuity. These are eroding the little that remains of revolutionary morale. In Cienfuegos, when your correspondent went to the official exchange house, he was ushered into a shop next door by a muscular young man in dark glasses who offered to swap euros for CUCs. “It's illegal, but there's no problem,” he said. This transaction took place right opposite the local headquarters of the Communist Party. Rodrigo says his dissident sympathies are well known in his town, but he is not denounced by the president of his local CDR because he sells clothes to the man's wife. Use of the internet is restricted, but government workers rent out night-time access.

The informal economy is one way in which Cuba is becoming more like the rest of Latin America. Another is growing inequality. Jobs in tourism or at foreign companies are coveted, as giving access to tips or bonuses. But only around two-thirds of Cubans have access to hard currency from one source or another. There is no malnutrition but poverty is palpable: at night, at a tourist restaurant in Cienfuegos, a chef hands a basket of food through a window to hungry relatives waiting outside.

Other grievances include the shortages of public transport and housing. On the outskirts of every town, would-be passengers wait for an hour or more for a ride. Alberto, a driver, tells of his frustration that after 30 years of work he must still lodge in the house of his sister.

Many Cubans still praise their free health and education services. But they add that these are of deteriorating quality. Schools have been hit by the loss of teachers to tourism jobs (and by a decision to halve class sizes to 15). Their replacements are ill-trained student teachers. Hospital buildings are dilapidated, while medicine and equipment are often in short supply. Next to the shabby maternity hospital in Havana stands a trim, freshly painted eye hospital—used mainly for Latin American patients flown in by Venezuela for cataract operations. This is a propaganda success for Mr Castro and Mr Chávez, but breeds resentment among Cubans.

Raúl and the renewal of reform

Since taking over the reins, Raúl Castro has given signs that he understands many of these frustrations. But Raúl is no liberal democrat. He is a lifelong Communist: he was in the Communist Youth when Fidel was still just a leftist nationalist. Immediately after the revolution, his brother charged him with forging a new army, which he has run ever since. It is the country's most efficient institution. Raúl differs in temperament from Fidel. He keeps regular hours, is a tidy administrator and is more at home in small gatherings than giving long public speeches. Where Fidel is an obsessive micro-manager, Raúl is a delegator. He is also more pragmatic.

Last July he launched an open debate on the shortcomings of Cuba's economy, saying that it needed “structural and conceptual changes”. So far more has been said than done. But the government has quietly turned more state land over to family farming and paid off a debt to dairy farmers. It is also spending more money on transport—buying more Chinese buses—and on doing up hospitals. Provincial officials have been given more autonomy. The police inflict less harassment on the private taxi drivers who take tourists around in 1950s American cars. The government has decreed that workers in foreign companies must pay tax on their unofficial bonuses—a way of accepting that companies should be free to vary pay according to performance.

With Raúl (or Mr Lage) installed in the presidency, change may accelerate—but only a bit. An economist involved in the reforms of the mid-1990s expects their resumption, but at a slower pace. “I think there will be a move towards greater decentralisation and the use of market mechanisms,” he says. Foreign investment and small business will be encouraged again.

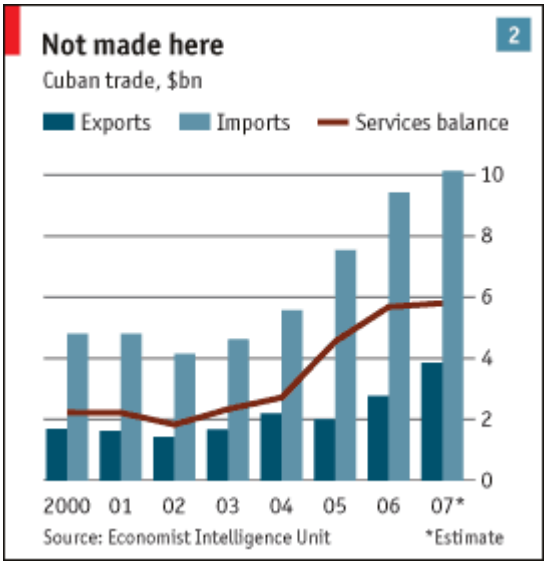
It is hard to discern clear factions within the regime. But there are powerful groups that benefit from the status quo. And some officials are seen as orthodox Marxists. Not all of these are elderly: they include Felipe Pérez Roque, the foreign minister, a protégé of Fidel. Even reformers worry that change will intensify inequality and create instability. Under Fidel Castro political logic has always trumped economic logic: three times since the 1960s he has reversed more pragmatic, decentralising policies and reimposed central control, as Carmelo Mesa-Lago and Jorge Pérez-López, two Cuban-American economists have pointed out.

Although he is retiring as president, Fidel Castro remains first secretary of the Communist Party. If a long-overdue party congress is held this year, that may be another harbinger of reform. But Fidel is still likely to exercise a veto power behind the scenes. He plans to continue writing regular newspaper columns. “I am not saying goodbye to you. I want only to fight on as a soldier of ideas,” his statement said. Raúl is not going to do anything that might embarrass his brother, says a foreign academic in Havana.

Nevertheless, two things are now acting as motors of change. One is a realisation that Venezuelan aid may not last forever—especially following the defeat last December of a constitutional referendum that would have allowed Mr Chávez to stay in office indefinitely. Without his payments for Cuban doctors (classed as a service export), the balance of payments would be under unbearable strain (see chart 2). The island spent $1.6 billion on food imports last year, and imports much of its fuel. Having repeatedly defaulted on its foreign debt, its credit is restricted.

The second motor of change, recognises the economist, is “popular discontent”. Whatever else Cubans might think of Fidel Castro, many respect and fear him as the man who led the revolution and successfully defied the United States. A

successor regime cannot count on those advantages. Already there have been small signs of defiance. Officials explaining the decree taxing bonuses were greeted with jeers and complaints.



The revolution has lost the loyalty of young people. One youngster publicly questioned Ricardo Alarcón, the president of the National Assembly, as to why the recent election did not include candidates with different views. Parents of teenagers, having struggled through the Special Period, find it hard to offer their children any hope that things will improve.

Since Raúl Castro took charge, there have been several, small signs of political relaxation. Writers and artists seem to have carved out a small niche of autonomy. When former officials associated with the Stalinist cultural crackdown of the 1970s surfaced in a television programme, Raúl Castro publicly apologised for the excesses of that period. “The Lives of Others”, a film about the Stasi secret police in Communist East Germany, received several packed screenings at the Havana Film Festival last year. (Havana wags quickly adapted its Spanish title *La Vida de Los Otros* to *La Vida de Nosotros* or “Our Lives”.) One or two Cuban bloggers have survived without being molested.

The government announced in December that it would sign the United Nations covenants on human rights. And it has begun a formal dialogue about human rights with Spain, its main European trading partner. On February 15th, it freed four of the prisoners arrested in the 2003 crackdown. But human-rights groups say there are still more than 200 political prisoners in Cuban jails.

Grumbling about the economy, about corruption and bureaucracy is tolerated. Grumbling about politics is not. As Rodrigo says, his mother who lives in the United States can stand on a street corner and denounce Mr Bush but “if here we talk ill of Fidel we go to jail.” Cuba remains a police state. Asked for their political opinions, most Cubans will respond by rolling their eyes. It may be true, as officials assert, that Cubans care about everyday issues and not about democracy. But nobody can be sure of that.

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The United States and Cuba

Movement in Miami

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Cuban-Americans ponder change too

FOR most of Fidel Castro's 49 years in power, American policy towards him has been as inflexible as his own. So it was predictable that George Bush should welcome Mr Castro's retirement but add that the United States' economic embargo against the island will remain unless Cuba holds free and fair elections. Yet beneath the surface, forces of change are at work in the United States too.

Mr Bush has tightened the embargo by restricting family visits; he is funnelling some $46m a year into efforts to promote democracy on the island, though these have little effect. More than 100 members of Congress, drawn from both parties, signed a letter this week calling for a complete review of policy towards Cuba. But the Democrats, too, have done little to change this since taking control of Congress, beyond sending a ten-member delegation to Havana in December 2006.

Some businesses would like to see the embargo eased. Since a loophole was opened in 2000, American farmers have become the main food supplier to Cuba, with exports of some $400m-600m last year. The administration could create many more loopholes if it wished. But it would take a huge political effort to lift the embargo in its entirety. It was written into law after the Cuban authorities shot down over the Straits of Florida two light planes piloted by exiles in 1996.

If John McCain, the Republicans' presumptive nominee, wins November's presidential election, such an effort is unlikely. He strongly backs the embargo. He says that when he was a prisoner in Vietnam, a Cuban instructor tortured his fellow-inmates (though this seems inconsistent with his leading role in restoring relations with Vietnam).

On the Democratic side, Hillary Clinton has conveniently dodged Cuba policy so far, though her campaign says that she recognises that the embargo has failed. The only candidate to have staked out a new policy is Barack Obama. In an article in the *Miami Herald* last year, he said he would reverse Mr Bush's clampdown on travel and remittances.

This restricted family visits to one every three years, and only to immediate relatives. That upsets many Cuban families in Miami, who describe heart-rending tales of being unable to visit dying parents, or even to attend their funerals, unless they are willing to break the law by travelling through third countries.

Cuban-Americans no longer form a monolithic block. Economic migrants who arrived in the past 30 years have no love for Mr Castro but lack the intense grievances of those who fled the revolution and lost their property. Younger Cuban-Americans increasingly register as independents or Democrats, are less wedded to the embargo and are more interested in other issues, according to Sergio Bendixen, a Democratic pollster in Miami.

These divisions of opinion could show up in November's election—but in the congressional races. Three districts in south Florida have long been the dominion of hardline Cuban-American Republicans. For the first time since 1992, the Democrats are mounting a strong challenge in the persons of Raúl Martínez, a feisty former mayor of Hialeah, and Joe García, a former spokesman for the Cuban-American National Foundation. They support the embargo but are campaigning against the travel crackdown and stressing non-Cuban issues. (A third Democrat, Annette Taddeo, a Colombian-American businesswomen, has also entered the race, but is a political unknown.)

If just one of those seats were to fall to the Democrats, that could open the floodgates of change in Cuba policy. “When Congress realises there is no unanimity on the embargo, the policy breaks down,” says Silvia Wilhelm, an opponent of the embargo who heads the Cuban-American Commission for Family Rights.

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Brazil

Whodunnit?

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A strange theft of oil and gas secrets

WHEN Petrobras, Brazil's state-controlled oil company, announced recently that it had found vast new oil and gas fields in the deep waters off the coast of Rio de Janeiro, pulses were quickened around the world. If all is as declared, these are the discoveries of the century.

But the excitement may have exceeded normal bounds. The federal police were called in earlier this month to investigate the mysterious theft of four laptops and two hard disks from a container. The equipment apparently contained the results of tests conducted for Petrobras close to the new gas field by Halliburton, an oil-services firm. The theft occurred in the week after January 18th, while the container was travelling by sea from the port of Santos to Macaé in Rio de Janeiro state.

Neither Halliburton nor Petrobras has said much about it. This may reflect their embarrassment. It seems odd that commercially-sensitive information should be transported in the same way as soya beans; odder that the thieves apparently knew exactly where to find what they wanted. President Luiz Inácio Lula da Silva has said that the incident bears the signs of industrial espionage.

If so, who might gain? Maybe investors looking to buy or to short Petrobras shares, or perhaps a rival oil company. At the moment it is not clear precisely what lies beneath the salt crust under the sea bed in the deep waters off Rio state. There may be as many as 70 billion-100 billion barrels of oil and much gas there. Or maybe not.

The cost of developing the fields is unknown and the technology to do so has not been proven. Anyone able to make winning bets on equities on the basis of a container-load of seismic data should probably be congratulated. But a company bidding for the right to explore near to the newly-discovered fields might find the data very useful.

Or, of course, the theft might just have been a fluke. Things frequently go missing from containers that pass through Santos. Brazil's biggest port is badly run, congested and corrupt. But if the thieves really did not know what they had stolen at the end of January, they certainly do now.

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Pakistan's election

Out with the president's men

Feb 21st 2008 | MULTAN
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The opposition has a field day at the polls

AP

ASTONISHINGLY, right to the eve of Pakistan's general election on February 18th, President Pervez Musharraf seemed to think he was popular. He predicted victory for the former ruling party, a gang of cronies known as the Pakistan Muslim League (Q), or PML(Q). The opinion polls—and the voices heard on any Pakistani street—said otherwise. And they were right. The “king's party”, as the PML(Q) is known, was routed. It won 42 of a possible 268 parliamentary seats. On a day of royal comeuppance, 19 of Mr Musharraf's former ministers lost their seats.

Two opposition parties were the main beneficiaries. As predicted, the Pakistan People's Party (PPP), whose leader, Benazir Bhutto, a former prime minister, was assassinated on December 27th while campaigning for the poll, emerged as the biggest party, with 88 seats. With another 25 indirectly elected seats—out of a total of 44 reserved for women and members of religious minorities—it will lead the bargaining to form a coalition government. In concurrent voting for Pakistan's four provincial assemblies, it also won a majority in Sindh. But the PPP did not win the deluge of sympathy votes in memory of its murdered leader it had hoped for. Indeed, with just over 30% of the vote, its performance was consistent with most recent elections.

The single big upset of the poll was the strong showing of the second opposition party, the Pakistan Muslim League (Nawaz)—or PML(N). In Pakistan's last election in 2002, the party won 18 seats. At the time its leader, Nawaz Sharif, another former prime minister, pictured above, was in exile. This time it won 65 seats. These were mostly in Punjab, the province with more than half the seats, and mostly at the expense of the PML(Q). With around 20 indirectly elected seats, and support from independents, the PML(N) will hope to scrape a majority in the Punjab assembly.

With control of Punjab, Mr Sharif would be well-placed to rebuild his party with an eye to the next election. Or even, as many heady Pakistanis currently expect, he might enter into a coalition with his bitter rival, the PPP. On February 21st Mr Sharif and the PPP's new leader—Miss Bhutto's widower, Asif Zardari—declared that this was their aim. “We will work together to form the government,” said Mr Sharif. Though whether they would succeed in this endeavour, given the many grave differences between them, was unclear.

The PML(N)'s recovery is especially remarkable in a country where voters tend to pitch for the candidate best able to dish out patronage. Having been forbidden to return to Pakistan until last November, after

the parties had picked most of their candidates for the election, Mr Sharif had weak representatives. By contrast, throughout the election campaign PML(Q) candidates were able to abuse their former powers as the king's party.

Pervaiz Elahi, the party's prime ministerial candidate and former chief minister of Punjab, was accused of dispensing gifts of 1,500 rupees ($24) from public funds, ostensibly as grants to the poor. As surety, recipients were made to supply their identity details, raising suspicions that Mr Elahi meant to tinker with voter lists. Certainly, PML(Q) candidates commandeered government vehicles to ferry campaign workers and voters. The agent of these abuses was often a district mayor, or *nazim*, an office established by Mr Musharraf. Having rigged two rounds of local-government elections, Mr Musharraf's supporters have bagged most of these posts. In Punjab, 33 out of 35 district mayors are PML(Q) supporters. Many campaigned openly for the king's candidate—who was often also a family member. With fat development budgets at their disposal, Punjab's mayors illegally disbursed millions of dollars in election patronage.

In a typical ploy, the *nazim* of the southern Punjabi city of Multan, Faisal Mukhtar, promised property rights to slum-dwellers in the city. In “Double Phattak”, a collection of around 100 muddy hovels under a road-bridge in the city, local residents, mostly Christians, Hindus and migrants from India, were sceptical of this offer. “When the politicians want our votes, they promise us papers, then they do nothing,” said Sajjid Bhatti, an unemployed 27-year-old. Nonetheless, Mr Bhatti said he would vote for Mr Mukhtar's brother, Fazal Mukhtar, the local PML(Q) parliamentary candidate.

Perhaps he lied. At least, such schemes did not save Mr Mukhtar and other well-connected PML(Q) men from defeat. Nor, despite fears to the contrary, did Mr Musharraf's intelligence agencies, the usual instruments of election-rigging in Pakistan, make any obvious effort to prevent this. Among the big losers was Chaudhry Shujaat Hussain, leader of the party and godfather to the entrepreneurial Punjabi clan that controls it. He stood in two constituencies, and lost them both—despite the intimidation of voters by his well-armed bodyguards. On the eve of the election, they fired on supporters of Mr Hussain's main rival, the PPP's Ahmed Mukhtar, wounding two of them. Mr Mukhtar won the seat all the same.

On the fringe of this drama, the country's Islamist parties, which have also supported Mr Musharraf, were obliterated. In 2002 army agents moulded them into a five-party bloc, the Muttahida Majlis-e-Amal (MMA). It proceeded to win unprecedented power for the mullahs, including 59 seats in parliament and control of the North-West Frontier Province (NWFP). In this election, the mullahs were trounced in NWFP and won three parliamentary seats.

The Mullahs' Meagre Appeal

That was predicted, for several reasons. First, the mullahs' provincial administration was as corrupt as any other in Pakistan, and more incompetent than most. It was also blamed, perhaps harshly, for failing to curb worsening insecurity in NWFP, including a Taliban insurgency. Venomously divided over the policies of Mr Musharraf, including a blundering counter-insurgency campaign, the MMA has also split. Its second-biggest member, the Jamaat-e-Islaami, boycotted the poll; its votes probably went to the pious PML(N).

In NWFP, the MMA has been supplanted by the Awami National Party (ANP) which appeals to the nationalist sentiments of the province's ethnic-Pushtun inhabitants. It was the only party to launch a serious election campaign in the violent region. It suffered two suicide-bomb attacks on its rallies, killing 38 people, and won ten parliamentary seats. Happily, there were no terrorist attacks on election day—though around 20 people died in political violence.

In a three-horse race with the king's party and the PPP, the success of Mr Sharif's PML(N) is more complex. Some elated pundits have styled it a watershed in Pakistani politics—the trumping of local patronage politics by concern for national issues. After all, unlike the more conciliatory PPP, Mr Sharif has taken a fiercely principled stand against Mr Musharraf. He has demanded the restoration of 60 judges sacked by the former dictator in November, under cover of a state of emergency. This was part of the plot to have Mr Musharraf re-elected president, probably illegally. Though no stickler for legal process during his own riotous spells in power, Mr Sharif has demanded that Mr Musharraf resign—or face impeachment by a two-thirds majority of the next parliament.

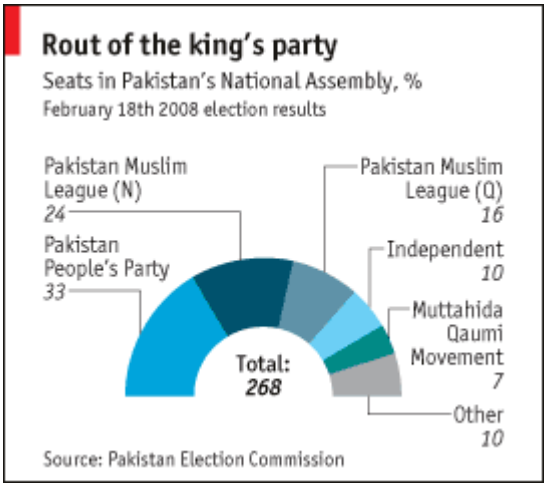
This is a popular message in Pakistan. According to a poll for the International Republican Institute, 70% of Pakistanis think Mr Musharraf should quit. Unnerved by Islamist terrorists—who have killed over 450 people this year—many object to his support for America, in an apparently self-defeating “war on terror”. Most Pakistanis also blame Mr Musharraf for the assassination of Miss Bhutto, in a gunfire and suicide-bomb attack. More generally, they have had enough, at least for now, of being pushed around by an arrogant, unaccountable and omnipresent army. Above all, the poor mass of Pakistanis are enraged by gnawing inflation, food shortages and worsening power cuts.

That is why they voted to get rid of Mr Musharraf's proxies, the PML(Q). But they did so in timeworn fashion, with most Punjabis voting for the conservative, Punjab-based PML(N), and most of the rest voting for the left-leaning Pakistan-wide PPP. In so doing, they exposed Mr Musharraf's nine-year rule as a political aberration. They also reopened the root division in Pakistani politics. With neither the PPP nor the PML(N) able to secure a consistent majority, their rivalry has contributed to a dire cycle of unstable civilian governments interspersed with army takeovers.

Welcome as it is, the “restoration of Pakistani democracy,” a favourite phrase of Miss Bhutto's, needs to be seen in this sobering context, of which the army also forms a part. A selfish gene of an institution, it has ruled the country more often than not; but it has always withdrawn from politics rather than risk the wrath of vengeful civilians. Now, at a time of widespread anti-army feeling, the recently appointed army chief, General Ashfaq Kiyani, has ordered a retreat from the civilian sphere. Some 300 army officers posted in companies and ministries are to be moved to military duties. And on February 16th General Kiyani called a meeting of his senior commanders and ordered them not to take sides in the election, which 81,000 of his soldiers had been deployed to protect.

To improve Pakistani democracy, the army will have to maintain its independence. Moreover, in the grip of a spiralling insurgency, which has claimed over 1,000 troops in the past five years, it has plenty of real soldiering to do. And America, which has bankrolled its campaign against the Taliban, is on the verge of holding it to account. The Democrat-controlled Congress has given warning that the cash-flood will depend on the army keeping its nose out of politics, and on more stringent accounting for its expenditure on the frontier. On the latter, there is room for improvement. America has provided $5.4 billion to pay the cost of the military campaign. According to a Western soldier in Islamabad, only 30% of this sum has been spent on its intended purpose. The rest has gone missing.

Pakistan needs its politicians to behave better, too. After a long and mutually destructive rivalry co-operation between the PPP and PML(N) might augur this. As an act of reconciliation, it truly would be a watershed in Pakistan. It would also very likely mean the end for Mr Musharraf, as the probable price of Mr Sharif's involvement in government. Indeed, with support from independents, the ANP and other small parties, it could muster the votes to impeach the president. This would be popular. But it may yet not happen.


Rout of the king's party
Seats in Pakistan's National Assembly, %
February 18th 2008 election results
Pakistan Muslim League (N) 24
Pakistan People's Party 33
Pakistan Muslim League (Q) 16
Independent 10
Muttahida Qaumi Movement 7
Other 10
Total: 268
Source: Pakistan Election Commission

Benazir's unclaimed legacy

Mr Zardari has inherited his wife's party, but not her authority. In her absence, Pakistan has no national leader. And Mr Sharif, the wily champion of Punjab, is a more formidable regional leader than Mr Zardari, who is a Sindhi landowner widely suspected of corruption. With important ideological differences between the two parties, moreover, their marriage would almost certainly be short-lived.

Mr Zardari's alternative is to form a coalition with every party except Mr Sharif's—including the king's party, PML(Q). In such an arrangement, the PPP and PML(Q) would share power in Punjab; and Mr Musharraf would keep his job. Many PPP supporters would consider that a betrayal; though it had been Miss Bhutto's plan. But with the PPP as the unrivalled leader of this government, Mr Zardari might consider it a safer option nonetheless.

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Health care in China

Losing patients

Feb 21st 2008 | BEIJING
From The Economist print edition

An orthodox approach to fixing the unavailability of decent health care

STARTLING economic growth in China has not been matched by similar improvements in health care. The cost of treatment is becoming ever more prohibitive for the poor. Government spending is meagre. But nearly three years after declaring the system a failure, officials are at last getting ready to unveil a plan to fix it.

AFP

It will cost them

Some Chinese press reports say the long-awaited and much-debated reform plan is likely to be revealed at the annual session of China's parliament, which opens on March 5th. The outline is already clear: a stronger role for government, including more money from the central budget, and a drive towards universal health insurance. Changes are already in train.

The reforms reverse the market-driven policies of much of the past two decades. The outbreak in 2003 of SARS, an often fatal respiratory disease, made the government realise what a mess the health-care system had become. Government hospitals and clinics, starved of funding, had turned to raising money (and boosting ill-paid doctors' salaries) by prescribing ever more expensive treatment and diagnostic procedures. With the collapse and privatisation of state-owned enterprises, the vast majority of citizens had been left with no insurance. Many began avoiding even desperately needed treatment.

In 2003 the government introduced a new medical-insurance scheme in the countryside. This involves contributions from rural residents as well as local governments and, for the first time, the central government. The number of people taking part rose from 80m that year to more than 730m now. This month Wu Yi, a deputy prime minister, said all rural residents (about 800m is the usual official figure) should be insured by the end of this year.

The scheme is only a slight relief, if at all, for the poor. It often does not cover routine outpatient treatment. The average reimbursement rate is only 30-40%, and bills have to be paid in full first. So hospital stays are beyond the means of many. There is also a big loophole: those insured can get benefits only in their own localities. Many younger people from the countryside are working in cities where they have to pay all of their treatment costs. A new labour-contract law introduced this year requires employers to pay medical insurance for such workers. But migrants are often hired informally, making it easy for employers to evade such requirements.

Even though urban health care receives a disproportionate share of total government spending on health, many urban residents fare just as badly. Li Ling of Peking University estimates that more than half of the urban population has no insurance. Those who do are mostly civil servants and the staff of state-owned enterprises. At least until the labour-contract law was enacted, many private enterprises provided

nothing. Last year the government introduced an urban insurance scheme (similar to the rural one) aimed at non-working residents, including children and university students. The aim is to have every urban citizen covered by 2010.

Much detail, however, is still unclear. A big issue is how to wean hospitals off their dependence on revenue from user payments. Policymakers and academics have been furiously debating whether the emphasis should be on government subsidies for hospitals or on reimbursements for patients. No target has yet been set for the maximum share of health expenditure to come from patients' own pockets. Ms Li, who has been advising the government on health reform, suggests a goal of 20% compared with over 50% at present.

Unlike for education, Chinese officials have also yet to set any specific targets for government spending as a percentage of GDP. The government spends a mere 0.8% of GDP on health (it was more than 1% in the 1980s). Henk Bekedam of the World Health Organisation says it could easily afford around 2.5%. But the government is being cautious. Reform, said Ms Wu last month, would be complicated. “Patience is needed,” she said. Patients would say they have shown more than enough already.

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India's fake doctors

Quackdown

Feb 21st 2008 | DELHI
From The Economist print edition

The high cost of medicines bought on the cheap

BAREFOOT labourers, skinny housewives and half-naked, snuffling toddlers wait outside a corrugated-iron and plywood shack in a Delhi slum to see “the Bengali doctor”. Noor Muhammed, the nattily dressed 30-something inside, is indeed Bengali, but, as he cheerfully admits, not a doctor. Yet as he makes quick temperature and blood-pressure checks and hands out tablets—many of them antibiotics—his patients nod respectfully, and pay.

Last month the discovery that an unqualified “doctor”, Amit Kumar, had run a lucrative organ racket for nearly a decade caused a furore in India. Operating from Gurgaon, a booming Delhi satellite, Mr Kumar is accused of having paid or forced hundreds of poor people to provide wealthy clients with kidneys. Organ-trading has been illegal since 1994. But India has done little to curb its “quacks”, as medical impostors are known.

India has more fake than genuine doctors, according to K.K. Kohli, who chairs the anti-quackery committee of the Delhi Medical Council. In Delhi alone there are around 40,000. In the teeming slums where up to a third of the capital's population of 14m live, requests for directions to a doctor will lead to one of many dingy clinic-shacks, where a man who looks more prosperous than his neighbours plies his trade with a stethoscope, a thermometer and a big pile of pills.

“They take acute patients and make them chronic,” says Dr Kohli, citing quacks who misdiagnose, prescribe steroids as pick-me-ups, mix their own remedies and buy cheap, out-of-date antibiotics. Their most common error is prescribing and selling antibiotics unnecessarily. Sandeep Guleria, a professor at the All India Institute of Medical Sciences (AIIMS) in Delhi, says quacks have helped cause the high levels of drug resistance in India.

Ten years ago Delhi's state government drew up an “Anti-Quackery Bill” of which nothing more was heard. But the real problem is less the quacks themselves than the health-care vacuum in which they flourish. India's private health business is booming, importing flashy technology to serve a growing middle class and foreign “medical tourists”. But the public health system remains skeletal. There are only 60 doctors for every 100,000 people in India, compared with 257 per 100,000 in America. In slums, sick poor people go to quacks because government-run clinics are too far away and the queues too long. In many rural areas, there are no clinics.

Indeed, so essential are quacks to India's health-care system that the National AIDS Control Organisation says it is planning to include them in its AIDS-control programme, training them in basic care and counselling of people with sexually transmitted diseases. Some quacks, of course, may be perfectly responsible. Mr Noor, for example, swears that he refers all “serious cases” to government hospitals. How he diagnoses them is not clear.

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Japan's pornography laws

Fleshing it out

Feb 21st 2008 | TOKYO
From The Economist print edition

Japan's Supreme Court rules that male genitalia can be art

PENISES protruding from leather stirrups. Testicles tied up in twine. Sometimes violent, sometimes serene, the homosexual erotic photography of Robert Mapplethorpe is anything but easy. But is it obscenity or art? On February 19th Japan's Supreme Court ruled that it is the latter, and that Takashi Asai of Uplink, the publisher, could legally sell a book of the artist's black-and-white portraits—mostly of flowers and stars, such as Arnold Schwarzenegger showing off in his swimming trunks in 1976.

The decision may end up loosening stringent obscenity standards. Japan is famous for racy shops, “soaplands” (brothels equipped with baths) and *manga* comic books that cater to every type of fantasy. Woodblock prints from the 17th century, called *shunga*, depict penises the size of battering-rams. Yet Japan also has extraordinarily prudish pornography laws.

Foreign films that show too much flesh are banned, and imported magazines and books censored—raising howls that this constitutes a trade barrier. Until the 1990s it was forbidden to show pubic hair. The offending areas would be blurred or physically scraped off the page and sometimes still are.

It is not just in Japan that Mr Mapplethorpe's work has at times been banned. But prints of his work have fetched more than $640,000 each. A Japanese version of the book “Mapplethorpe” published by Mr Asai in 1994 faced no trouble. But a copy was confiscated by customs in 1999. He suspended sales in 2000 after police warnings—and selling an anticlimactic 900 copies.

The problem seemed to be that, as the Supreme Court held in another Mapplethorpe case in 1999, displaying male genitalia was considered obscene. Presumably this was to spare Japanese women their blushes. Yet Japan is, after all, a country of public nudity in baths. And images of naked women are fine, but heavens, no naked men!

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Australian river-management

Not so gently down the stream

Feb 21st 2008 | GOOLWA
From The Economist print edition

A nation's lifeblood on life-support

MICHAEL VEENSTRA'S 60-berth marina at Goolwa has room for only 30 boats: half the moorings are now on dry land. Over the past 18 months, the water level has dropped and its salt content has risen. Goolwa faces the mouth of the Murray River. Yet drought, climate change and more than 100 years of irrigation have left the Murray in one of its worst crises.

The Murray and its main tributary, the Darling, are Australia's longest river-system and the lifeblood of its crop farms. It supplies four of the country's six states. The picture at the Murray's source, 2,500km (1,550 miles) east of Goolwa, is more refreshing, as it bubbles out of a clear spring in the Snowy Mountains of New South Wales (NSW). But it grows steadily worse from there. In the past two years, the volume of water flowing into the Murray from the rivers that feed it in NSW and Queensland was the lowest since records began in 1892. Officials now say there is a 75% chance of even less water in the Murray system by next June than a year ago.

Wendy Craik, of the Murray-Darling Basin Commission, an advisory body, says recent rainfall in parts of NSW and Queensland has raised hopes more than water levels. Much of it will have flowed into lakes and storage systems upstream, such as the Menindee Lakes of NSW, before reaching the Murray. Even the river's healthy look for long stretches can be misleading. Officials release water from a series of dams and weirs. After the latest drought, the worst in a century, some experts reckon the river might be empty by now without this system of regulation.

But it remains a source of state rivalries that have festered ever since the various governments met in 1902 at Corowa, a Murray town, to try to secure its water supply. Boat operators upstream at Echuca, in Victoria, where there is plenty of water, do not share Mr Veenstra's complaints. Fruit growers in NSW and wine-grape growers in Victoria accuse cotton farmers in Queensland of taking out too much water. Yet farmers as a whole use almost 80% of water extracted from the Murray for irrigation, not always efficiently say their critics.

To redirect water to more productive farmlands, the federal and state governments set up a market in the 1990s allowing water licences to be traded across state borders. The market is still hampered by mismatched state regulations. Last year the former conservative federal government announced A$10 billion ($9.2 billion) in investment in water management, mainly for the Murray. For the new Labor government led by Kevin Rudd the crisis may well be the biggest test of his pledge to reform Australia's federal system.

Peter Cullen, one of Australia's leading water experts, calls for a two-pronged approach. Farmers, he says, will have to cope with half the irrigation water they have been used to. And the federal government itself should buy water licences from farmers and redirect water to saving wetlands that are dying of thirst. Jealous state governments will resist a federal takeover. But river users such as Mr Veenstra agree it is the only salvation: “Whether you're at the start of the Murray or at the end, like us, you should all be treated the same.”

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Iran

New parliament, new policies?

Feb 21st 2008
From The Economist print edition

Reuters

It's no longer reformists against conservatives in Iran but pragmatic conservatives against the hardliners

Get article background

ITS rulers have long boasted that Iran has the only democratic government in a region of despots and monarchs. The country's parliament, or *majlis*, is certainly not the rubber-stamp body that rules most of the Arab roosts. But the election due on March 14th shows why Iran's system of government is so hard to categorise. The ballot may be neither free nor fair, but the candidates vary, competition can be fierce and the results are hard to predict. Virtually no one predicted victory for Mahmoud Ahmadinejad in the presidential race three years ago.

For observers who regard this democratic glass as half-full, the mere fact that the election's results are hard to call is a cause for celebration. “With all its serious flaws,” says Mohsen Milani, a leading Iranian scholar, “it is through this process that changes in Iranian policy and behaviour can be expected.”

But there are valid reasons to view the glass as half-empty. Around 2,000 candidates, nearly one-third of those who put themselves forward, including most of the would-be reformists, have already been disqualified. Muhammad Khatami, a relatively liberal reformer who was president from 1997 to 2005, called the mass disqualification a “catastrophe” that could “endanger the system and society”.

Reformists have appealed against their disqualification to the Guardian Council, a committee of Islamic jurists that enjoys widespread constitutional powers. Several hundred have been reinstated, including a grandson of Ayatollah Ruhollah Khomeini, the father of the revolution. The grandson had been rejected on the ground that he lacked loyalty to Islam and the constitution. Ayatollah Ali Khamenei, the present supreme leader, may yet encourage the Guardian Council to allow other reinstatements, so giving the impression of being a magnanimous leader presiding over a true democracy.

On paper, the 290-seat *majlis* looks like any other parliament. It drafts laws, ratifies treaties (such as on nuclear non-proliferation) and debates the annual budget. In theory it can remove cabinet ministers and impeach the president for misconduct.

In practice, it plays second fiddle to the Guardian Council. Its dozen members are directly or indirectly appointed by Ayatollah Khamenei; they vet all candidates and can veto parliamentary legislation. In 2003 the *majlis* passed legislation to limit the constitutional authority of the Guardian Council—which predictably rejected it.

Still, despite its limited authority the *majlis* can influence national debates. The reformist-dominated

majlis that sat from 2000 to 2004 generally backed Mr Khatami's efforts to increase democracy, improve human rights and promote a conciliatory foreign policy. It may seldom have won its case, but it showed that Iran's elite was far from monolithic. The present parliament, by contrast, came to power in 2004 after a purge of reformists. It was inaugurated to chants of “Death to America!” and has shared Mr Ahmadinejad's social conservatism and aversion to compromise over Iran's “right” to pursue proliferation-prone nuclear technologies.

With little hope of an electoral comeback, the reformists are glum. Four years ago they protested against their wholesale disqualification by boycotting the election, calculating that the conservatives would back down. The hardliners swept the polls but, by contrast with the late 1990s, did not have to face pro-democracy student protests afterwards. Today's democratic opposition is dormant, fed up with politics after the failures of the Khatami era, and wary of unrest, especially in light of the carnage and political tumult in neighbouring Iraq.

Indeed, the previous contest pitting conservatives against reformists has been superseded by one between hardline conservatives sympathetic to Mr Ahmadinejad (“men of principle”, as they call themselves) and more pragmatic conservatives less in thrall to revolutionary ideology. This latter group is gathering around a former nuclear negotiator, Ali Larijani (who is running for a seat in parliament), the mayor of Tehran, Muhammad Qalibaf, and a former commander of the Revolutionary Guards, Mohsen Rezaii. Three years ago this trio was considered hardline. Today, they look like the voices of reason. They will not call for a “dialogue of civilisations”, as Mr Khatami did, but they seem less hung up than Mr Ahmadinejad on questioning the Holocaust or threatening Israel's existence. They are unlikely to give up Iran's nuclear ambitions, but might work harder to allay international fears that Iran wants a bomb.

Mr Qalibaf deserves special attention. He was widely thought to be the choice of the conservative elite in the presidential election of 2005, but despite an expensive, Western-style campaign, finished in fourth place. Today he is a popular mayor of Tehran, touted as Mr Ahmadinejad's most formidable challenger in the presidential election that is due in June next year. For this reason, Mr Ahmadinejad has aimed to undermine him, not least by withholding government funding to the Tehran city council. As one aide to Mr Qalibaf puts it, “Just as Iran is under international sanctions, we're under domestic sanctions.”

Mr Ahmadinejad's weak spot is the economy. Thanks as much to his mismanagement as to international sanctions, Iran is a rare big oil-producing country where economic conditions have worsened despite a tripling of oil prices. This may help the pragmatic conservatives. But it is hard to gauge feelings outside the capital. Though Tehran is Iran's political heart and soul, the low turnout among disaffected urban sophisticates means they no longer set the political pace. And Mr Ahmadinejad has been careful to lavish spending on the provinces.

Iranian politics are dominated by personalities and factions rather than political parties. This confers an advantage on the hardliners, who can call on state organisations such as the Revolutionary Guards and the *Basij* militia to turn out their vote. Yet elections in Iran often surprise. The pragmatists might still do well in the *majlis* elections. That would not change Iran at a stroke: the lesson of the Khatami era was that real power lay with the supreme leader rather than with parliament. But a rebuff in the *majlis* election could damage Mr Ahmadinejad's chances of remaining president after June next year—and send a powerful signal of discontent to the supreme leader himself.

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The Palestinians

Split by geography and by politics

Feb 21st 2008 | GAZA AND RAMALLAH
From The Economist print edition

What comes after catastrophe?

Get article background

AP

Still a dark future

AS A people, the Palestinians have lacked many things, but they have never been at a loss for words. The creation of Israel in 1948 was their *nakba*, or catastrophe, and generated their *shatat*, or diaspora. Israel's conquest of the West Bank and Gaza in 1967 was a *niksa*, or setback. But they have yet to coin a term for their present situation. It is, by any definition, a calamity, with the Palestinians physically divided by Israeli barriers, politically polarised between rival governments in Gaza and the West Bank that pursue radically opposed policies, and economically dependent on the world's charity.

Those are the broad outlines. The details are far worse. One day this week at Erez checkpoint, by the remotely operated hydraulic cattle-gate that is the last of six barriers through which a trickle of humanitarian traffic still passes between Israel and Gaza, a man was whimpering in pain. His sister explained that this was the third day in a row he had journeyed to this grim place, by costly taxi, then been carried by porters across the bomb-flattened wasteland that used to be the highway to Gaza, only to be barred from reaching a scheduled chemotherapy session in an Israeli hospital. They would try again the next day, and for his subsequent five monthly sessions.

Inside Gaza, the brief euphoria after last month's breach of the territory's other border, with Egypt, has dissipated. Israeli restrictions on trade, tightened since Hamas's takeover last June, have reduced living standards to subsistence level. Supplies of staple foods are adequate, but petrol, prescription drugs and construction materials grow increasingly scarce. Electricity is sporadic. Raw sewage overflows potholed roads. In retaliation for a rain of Palestinian rockets on Israel, which are seldom lethal but have displaced many residents of the Israeli town of Sderot, Israeli missile strikes and raids continue to kill around a dozen Gazans a week. Most victims are armed men, but some are civilians such as the three children killed in the past week alone. “This is a prison where even the jailers are tortured,” grumbles an officer in the Hamas-run police.

While not so dire, the situation in the West Bank is hardly enviable. Despite international pleas for a freeze on Jewish settlement, Israeli infrastructure has already placed some 40% of the territory out of bounds to its 2.4m Palestinian residents, according to the UN. A lacework of roads built for the use of 450,000 settlers, whose number has grown by 5.5% a year since the signing in 1993 of the peace-seeking Oslo accords, confines Palestinians inside isolated enclaves that are controlled by checkpoints subject to sudden closure. Since the killing of an Israeli woman in a suicide bombing in Dimona on February 4th, the first such attack for many months, some 270,000 Palestinian males aged between 16 and 65 have been blocked from leaving the West Bank towns of Jenin, Nablus, Tulkarm and Qalqilya. A third of West Bank residents now rely on UN food aid.

Despite such troubles, polls reveal that 80% of Palestinians believe their leaders' first priority should be to repair the split between Fatah, the secular umbrella movement that controls the West Bank, and Hamas, the Islamist group that seized power in Gaza. There is no sign of that happening soon. Indeed, the level of venom has increased since the Gaza coup, with Hamas claiming recently to have foiled a Fatah plot to assassinate its leaders.

Hamas has succeeded in imposing its control over Gaza. It has improved internal security, restored some state services and taken bold initiatives such as the breakout on the Egyptian border. Its leadership

appears split between pragmatists, aware of the need to end their diplomatic isolation, and a stronger core of radicals who glory in posing as Muslim resistance heroes. Yet even the pragmatists, currently seeking a deal with Israel that would comprise a ceasefire, an exchange of prisoners and a formula for opening the border crossing to Egypt, shy from the kind of concessions—such as recognising Israel—that might convince the world to grant them legitimacy.

Schisms within Fatah run even deeper. The Palestinian president, Mahmoud Abbas, is surrounded by bickering, corruption-tainted aides, and faces a groundswell of opposition to what younger party members see as his overly soft negotiating strategy with Israel. His fractious party is due to hold its first general congress in nearly 20 years later this spring. Despite some efforts at internal reform, some within the party fear that without a full-scale shake-out, the party could split.

In Gaza, Fatah members, among them thousands of bureaucrats and soldiers whom Mr Abbas pays to shun Hamas and stay at home, hint that unless he can show results from talking to Israel, they may go back to work, so bolstering the Islamists' rule. In the West Bank, they mutter that negotiations will go nowhere unless backed by threats of action. “The trend that wants a return to resistance is very strong, and the world powers that support the peace process should be aware of this,” says a junior Fatah leader in Ramallah, the Palestinian administrative centre in the West Bank. “Fourteen years of negotiations have brought us nothing but a wall, and shown us the Israelis are interested only in conflict management, not resolution.”

Many Palestinians yearn for a third path, between Fatah and Hamas. One initiative that is gaining momentum, sponsored by the Palestine Forum, a group of businessmen and intellectuals, calls for concessions by both rump governments. Hamas would agree to fresh elections, and to negotiating with Israel. Fatah would agree to sweeping institutional reform, to asserting fixed demands as a basis for negotiation, and to enshrining resistance to occupation as a national right, even if the preferred option is by peaceful action rather than violence. All very well, but that requires wise, strong leadership, and an Israel inclined to take risks for peace. Just now, however, most of the talk in Israel is focused more on the need for a new war, to stop Hamas's rockets falling on Sderot.

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Syria

Cultural diversity v Arab purity

Feb 21st 2008 | DAMASCUS
From The Economist print edition

An Arab capital of culture but not quite Arab enough

Get article background

FIREWORKS lit up the Syrian capital and crowds gathered to celebrate the naming of Damascus a month ago as “Arab Capital of Culture 2008”. But how Arabic does a city have to be to live up to such an accolade? While the organisers of the year-long festival stress the ancient town's cultural diversity, others have been stressing its Arab purity.

In the past few months, across the country, owners have been told to Arabise the names of their shops and cafés and advertisers have been urged to use classical Arabic rather than the local Syrian dialect. “La Noisette restaurant is now called *al-Bunduqa*,” Arabic for hazelnut, says Ibrahim Hamidi, who has written on the subject for *al-Hayat*, an Arabic-language newspaper published in London. “It sounds funny to us.”

A law from the 1950s was revived by decree a year ago with the formation of a Committee for Improving the Arabic Language. It may mark a new effort to polish Syria's Arab credentials and end the country's isolation of recent years. Next month Syria is due to host an Arab League summit for the first time, with workers already sprucing up the airport and main roads.

But the festival's organiser, Hanan Kassab Hassan, says its programme reflects Damascus's richly varied culture. “It is a city on a crossroads, on the Silk Road and the spice routes,” she says. “It was open to all cultures.” She acknowledges that there have been grumbles that many of the luminaries are foreign rather than Syrian. Human-rights campaigners point out that a number of notable homespun intellectuals are in jail.

One highly popular performer on the guest-list was a Lebanese diva, Fairuz, who last sang in Syria 23 years ago, when her car was carried aloft by an adoring crowd. This time she defied anti-Syrian politicians in Lebanon, who said she should boycott the show while her country remained mired in political crisis. Other critics noted the arrest, just an hour before she performed, of a leading Syrian advocate of democracy. Her fans, of course, argue that politics and culture should be separate. That will be tricky with next year's Arab Capital of Culture: the Arab League has chosen Jerusalem.

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The Gulf

Cash is going to the poor, too

Feb 21st 2008
From The Economist print edition

The Gulf's rich are beginning to invest in dowdier places as well

WHEN oil sheikhs splurge in the West, they make headlines: some Qataris, for example, in partnership with some Britons, recently bought a chunk of London's fashionable Chelsea for $1.9 billion. They make news, too, with big-tag items at home, for instance in the two richest statelets in the United Arab Emirates (UAE), with the world's tallest building in Dubai or a new Louvre museum in Abu Dhabi. Yet with less fanfare, Arab oil money may have a bigger impact elsewhere, in poorer countries outside the Gulf.

Over the past six years, some $700 billion in capital has gushed out of the monarchies that make up the Gulf Co-operation Council (GCC): Saudi Arabia (by the far the weightiest), Bahrain, Kuwait, Qatar, Oman and the UAE. Most of their cash still washes up in America and Europe. But with returns from rich countries slowing, the flow to less traditional markets is speeding up. The International Institute of Finance, a think-tank in Washington, DC, estimates that Asia and the Middle East soaked up 22% of GCC investment between 2002 and 2006: “A substantial volume of GCC funds is staying in the MENA [Middle East and North Africa] region, where quickening liberalisation, privatisation and regional integration, as well as an increased pace of project implementation, has lured capital that would previously have headed away from the Arab world.”

Freshly acquired assets range from iron mines in Mauritania, bought for $375m in November by Qatar Steel, to a Gulf consortium's $1.2 billion share in an urban-development scheme in southern Malaysia. A planned, Saudi-financed oil refinery costing $3 billion in Bangladesh will add to existing Saudi refining interests in China, South Korea and the Philippines.

In recent years, Gulf-based telecoms firms have spent at least $20 billion snapping up businesses from Algeria to Singapore. Gulf portfolio investment has turned once-sleepy stockmarkets in Cairo, Casablanca and Amman into some of the world's hottest performers and helped insulate them from global shocks. Housing prices and exchange rates in troubled Lebanon have held steady, thanks to Gulf governments parking cash in the country's central bank and fun-starved Saudis buying sea-front property.

In fact, it is in real estate that Gulf money is making its loudest splash. Dubai's flagship property company, Emaar, claims to be engaged in some $65 billion-worth of foreign projects. These include four resorts in Morocco and upmarket housing projects in Cairo, Damascus, Hyderabad, Istanbul and Karachi. A rival firm, Damac, recently launched what it calls a resort city on Egypt's Red Sea coast costing $16 billion, while another Emirati developer, Al Maabar, has pledged $10 billion to create a fancy suburb for Tunis. Qatari Diar, the same state-owned company that jointly bought Chelsea Barracks, is also building office towers in Cairo and Khartoum, resorts in Syria, Morocco and the Seychelles, and a gated community in Yemen's capital, Sana'a.

Even if such numbers are inflated by sales hype, Gulf cash and glitz are beginning to transform the region's dowdier peripheries. For the burgeoning middle class in staid old cities such as Rabat and Damascus, the real-estate brochures, with their promise of Dubai-style living and manor houses that hint of Andalusia and Tuscany, now make an enticing read.

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Kenya

Still stalled on the edge

Feb 21st 2008 | NAIROBI
From The Economist print edition

The political remedy is obvious, but hard to accept

THE settlement to heal Kenya's political agony may be edging closer but will it be a meaningful one? Negotiating teams last week met “secretly” at a lodge in the Tsavo game park, watched over by a former United Nations secretary-general, Kofi Annan, and resumed talks this week. They have agreed to stop the violence, address the humanitarian emergency, bring perpetrators of ethnic cleansing to justice and set up an independent review of the election. But can they agree on the grand coalition government Kenya needs to haul itself back from the brink?

If an agreement continues to elude the negotiators, or if one is produced and proves flimsy, the violence that has racked parts of the country since its disputed election on December 27th could return. Some 1,000 Kenyans have been killed so far and more than 300,000 displaced.

On February 21st the head of the opposition Orange Democratic Movement (ODM), Raila Odinga, was still holding out for a change in the constitution that would create a prime minister's post. Mr Odinga assumes he would be this figure in a transitional government and that half his cabinet would be party colleagues. In return, he would drop objections to Mwai Kibaki staying on as president until new elections in two years' time. The president would remain “head of state”, but with reduced powers. The prime minister would become “head of government”, answerable to parliament.

Mr Odinga says Mr Kibaki promised him a similar role back in 2002, in return for supporting his presidential bid, but then reneged. If the present talks fail, he says, there will be more “mass action”. That sounds like incitement. But it is probably true that not even Mr Odinga, a mesmerising presence to his supporters, will be able to control the hate-mongers on his side if he is left empty-handed again.

Agreeing to keep Mr Kibaki in office is a big concession. Election observers mostly agree that Mr Kibaki stole the decisive votes to squeak back in for a second term. Yet the bigger concession will have to come from the government. By divvying up many of the powers of the president to a new prime minister and a parliament that is used to being sidelined, the government will be excluding the Kikuyu hardliners and financiers who, since independence in 1963, have used the presidency as an easy lock on power and wealth. Mr Kibaki is keen that any accord should be under the existing constitution, and this reluctance to ditch the hardliners may be why negotiations have dragged on so slowly. But on February 21st a government negotiator said that the post of prime minister had been “more or less agreed on”; it would have executive powers but be subject to a sunset clause, expiring either with the dissolution of parliament or the enactment of a new constitution.

Some pessimists meanwhile point out that a divided executive may make Kenya more unstable, especially if the division is along ethnic lines. That is a risk most ordinary Kenyans are ready to take. They are backed by America, the European Union and the African Union. George Bush, on a five-nation visit to Africa this week, emphasised that Kenya needs “real” power-sharing. He sent his secretary of state, Condoleezza Rice, on a one-day visit to Nairobi to push the two sides closer. She promised generosity in return for a unity government—but gave warning that “the current stalemate and the circumstances are not going to permit business as usual with the United States.”

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Chad

The aftermath

Feb 21st 2008 | NDJAMENA
From The Economist print edition

The rebels are gone, but not forgotten

LOOTED and battle-scarred, the shops on Ndjamena's dusty main boulevard remain closed; thousands of Chadians, refugees in neighbouring Cameroon, have yet to return home; and the risk remains of a fresh rebel assault. But for now the message from President Idriss Déby, who on February 14th called a 15-day state of emergency, is clear: he has survived—again—the very type of coup attempt that first brought him to power 18 years ago.

The February 2nd assault on Ndjamena, now known euphemistically as “the events”, caught Mr Déby off-guard. The three main rebel groups, normally so mutually antagonistic, fused into one column and moved in from the east with some 3,000 well-armed men. And, in contrast to their attempt in 2006, this time the rebels, who owed their weaponry to neighbouring Sudan, were organised. They attacked along two main corridors, towards the airport and towards the presidential palace, leaving over 160 killed and hundreds more wounded.

Mr Déby did not survive through his own efforts alone. Fighters from a Darfur rebel group, the Justice and Equality Movement (JEM), came to his aid, hence the number of English-speaking “soldiers” staffing the former French colony's security posts. Meanwhile, the contingent of some 1,100 French troops based in Ndjamena offered just enough logistical and intelligence support to ward off the rebels. As their supplies dwindled, the rebels melted away after just two days.

Yet if the immediate crisis is over, what of its aftermath? The capital's citizens, inured to fighting in Chad's hinterland, remain shocked by the speed with which the rebels reached them. Few risk going out much after dark, even though the curfew begins only at midnight.

The obvious danger for the president is that there will be a next time, and that his luck will run out. A new generation of politicians in Paris is beginning to break with the traditional *Françafrique* policy of supporting so-called “strong men”. Indeed, though the president might think the French-dominated European Union peacekeeping force now deploying in the east is there to bolster his regime, Brigadier-General Jean-Philippe Ganascia says he is not out to fight for the government: “I won't know who is a rebel, bandit or anything else. As long as somebody is threatening the population, I am ready to use the means I have got.”

Nor is the threat to Mr Déby purely military. The battle for Ndjamena has strained his relationship with the JEM. The group might now regret their move into Chad, as in their absence there was a fresh

Sudanese assault on Darfur. Inconveniently, the president's new defence minister, Mahamat Ali Abdallah Nassour, also looks strong. Given that several rebel leaders are former members of Mr Déby's government, the minister's allegiance is far from assured. Meanwhile, Chadians know that ordinary life may get even worse: prices of everything from petrol to mango juice are soaring. For the refugee camps in the east, supply lines to the land-locked country are already under pressure as pre-positioning of food starts ahead of the rainy season. If violence halts the supply effort, there will indeed be a state of emergency for a country harbouring half-a-million refugees and displaced persons.

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Kosovo

The world's newest state

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From The Economist print edition

Its declaration of independence is the start of another chapter, not of a new book

AFP

THE deed is done. On February 17th Kosovo finally declared its independence, becoming the seventh state to emerge from the Yugoslavia that self-destructed in the early 1990s. Had it been a republic of the Yugoslav federation, like Croatia or Slovenia, it would no doubt have been independent long ago. But it was a province of Serbia and that difference means Kosovo, for the foreseeable future, will not be a state like the others.

Kosovo has about 2m people, of whom 90% are ethnic Albanians. They say they have been waiting for this moment not just since 1991, when Yugoslavia broke up, but 1912, when Serbia retook most of Kosovo from the Ottoman Turks. By contrast Kosovo's Serbs, who number 120,000 (although no one knows for sure), greeted the declaration with fear and anger.

After the declaration, America and most European Union countries began the process of recognition. Muslim states will follow. Like the people of Albania, Kosovars are that rare combination, a majority Muslim people who are also passionately pro-American. Russia, and of course Serbia, reacted angrily. Russia argues that Kosovo's independence will open a Pandora's box of secessions and so it will block it from joining the United Nations.

Serbia went through the largely empty gestures of annulling the declaration and bringing criminal charges against Kosovo's president, prime minister and parliamentary speaker for an “unlawful attempt to bring about the secession of a part of Serbia's territory.” More significantly, when Kosovo Serbs destroyed two border posts between the Serb-inhabited north of Kosovo and Serbia itself, they won the backing of the government in Belgrade: Slobodan Samardzic, Serbia's minister for Kosovo, said this “might not be pleasant but it is legitimate.”

There are 17,000 NATO-led troops in Kosovo and they have now taken control of that part of the border. But the real story is the hardening of a *de facto* partition of the new country between parts controlled by Serbia and parts under Kosovo's government. About half of Kosovo's Serbs live in the north, with the northern part of divided Mitrovica their main town; the rest live in enclaves scattered elsewhere. Serb leaders have told them to ignore Kosovo's independence.

On balance, said one EU diplomat, the first few days after the declaration had been “so far, so good”. True, the Serbian areas now amount to a new “frozen conflict” in Europe, like Cyprus or parts of the former Soviet Union. But that has long been expected. Now the UN mission that has been in Kosovo since the end of the war in 1999 should start to wind down and a big EU mission start to wind up.

It will have two parts. One is to oversee police and justice in Kosovo. The other, called the International Civilian Office, is to oversee the application of the plan for an independent Kosovo drawn up by Martti Ahtisaari, a former Finnish president. The office will be headed by Pieter Feith, a shrewd Dutch diplomat. He, like Kosovo, faces a struggle. The core of the plan is the decentralisation of the state, giving Serbian areas much autonomy. But if their leaders are not interested in this, and prefer to secede from Kosovo, then much of the plan will be a dead letter.

So while Kosovo's declaration of independence ends a chapter, its new “final status” is likely to prove merely another chapter in the same book, not the longed-for beginning of a new volume. Few Kosovar Albanians understand this. The eight years in which Kosovo was a UN protectorate may well be followed by a period as an EU protectorate. Diplomats and local analysts say Mr Feith will have to be careful to stay in the background and not let himself be drawn into playing a larger role than his mandate prescribes. Otherwise Kosovo risks getting “Balkan dependency syndrome”—a form of behaviour, already prevalent in Bosnia, whereby local leaders let foreigners do what should be their own work, handing over responsibility for unpopular decisions and, naturally, failures.

“Kosovo is done,” says Migjen Kelmendi, editor of a newspaper called *Java*, paraphrasing a remark that followed the creation of Albania in 1912. “Now we need to create Kosovars.” He means that Kosovo needs to have its own distinct national and cultural identity, and not to be swamped—as is happening now—by imports and influence from Albania.

But the biggest challenge is the economy. The statistics brim with horrible figures, all unreliable and misleading. If 40% or 50% of Kosovars were really unemployed (as official figures say) and had no other source of income, then everyone would be starving. They are not. Kosovo looks and feels like a poor part of Europe, not a part of the Third World or parts of the former Soviet Union. Unemployment figures are high—two-thirds of young people are jobless—because the grey economy is huge. However most families also have members abroad who send cash home. Generations of Kosovars worked as *Gastarbeiter*, guest workers, in other parts of Europe. Today their pensions make a huge contribution to keeping Kosovo going.

Reuters

Hello, Belgrade? What now?

Some of Kosovo's problems are stark. According to Shpend Ahmeti, director of Kosovo's Institute for Advanced Studies, imports are running at about €1.3 billion ($1.9 billion) a year but exports at a microscopic €90m-130m. Every year between 25,000 and 30,000 young people enter the labour market, most of them unskilled. Business taxes are much higher than elsewhere in the region; interest rates are prohibitive. Like the rest of the Balkans, Kosovo has a reputation (now somewhat outdated) of being plagued by organised crime—a symptom of a weak state.

On the bright side, says Mr Ahmeti, Kosovo is rich in all sorts of minerals which have been mined for centuries. There is also a small “secret Kosovo”—not black-uniformed gunmen, but modern factories

making things. In Suha Reka workers glide around the Flor-En meat processing plant in white suits and masks. The nearby Solid shoe factory churns out goods for export, as well as the domestic market. These are green shoots that need tending.

Asked whether independence will make a difference, though, Ahmet Kuci, the commercial director of Solid says no. What will, he says, is cutting taxes. Kushtrim Xhakli, an internet entrepreneur, says the problem lies deeper: stick-in-the-mud thinking and no tradition of letting private companies get larger than one family can control. “They are frightened of modern technology and losing control,” he says.

If Enver Hoxhaj, Kosovo's energetic, young minister of education, has anything to do with it, attitudes will change. He has a ministry of only 200 people but half a million students in education. He has no idea if his 27,000 teachers have the right qualifications. His priorities are to build 76 new schools, to register teachers and to introduce proper vocational training.

Other vital tasks are to improve the rule of law by getting Kosovo's clogged and often corrupt courts to work, and to ensure a reliable energy supply. Power cuts are a daily occurrence. Kosovo also needs to attract foreign investment, and the best way to do that, as Mr Ahmeti says, is to stay out of the news for a bit.

That does not seem all that likely in the short term. The coming weeks and months will see turbulence in the western Balkans. But look at the map. Kosovo and the region are surrounded by the EU. The union is moving in not because it loves Kosovo but because a stable Balkans is in everyone's interest. It may well be that Serbia, the biggest and most powerful country of the former Yugoslavia, retreats, bloodied and embittered, from its attempt to integrate into the EU, at least for a while. On May 11th Serbs vote in local elections and, since they intend to hold these polls in Serb-controlled parts of Kosovo too, there will be plenty of scope for incidents which could turn nasty. Yet all that is cause for concern, rather than panic so far.

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German tax scandals

The disgrace of Germany AG

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The country's tax scandal is a test of its judicial, not its economic, system

THE word *Schadenfreude* was coined for just such occasions. On February 14th, in full view of the television cameras, police escorted Klaus Zumwinkel, boss of logistics giant Deutsche Post, from his villa in Cologne to explain to prosecutors his dealings with Liechtenstein, a notorious tax haven. By itself the disgracing of Mr Zumwinkel, who quit Deutsche Post and the chairmanship of Deutsche Telekom the following day, would have been big news. But he is just one of around 1,000 suspects in Germany's biggest-ever tax-fraud case; his alleged million-euro tax dodge is a fraction of hundreds of millions that may have flowed to the Alpine principality rather than into Germany's treasury. In the following days investigators fanned out, searching homes and offices in Munich, Frankfurt and elsewhere, this time without television cameras in tow. In the dock of public opinion are not just a few fat cats but the rich in general.

Germany was already in the throes of an argument about pay, equality and whether capitalism is fair. Globalisation and economic reforms have squeezed the wages of ordinary Germans. Yet the pay of Germany's top managers jumped 17.5% in the 2006-07 financial year, according to Kienbaum, a headhunter. The same class has lately been held responsible for expense-account sex (Volkswagen), systematic bribery (Siemens) and subprime self-abuse (IKB and the state banks of Saxony and Bavaria). Trust in the social-market economy—Germany's mix of capitalism, welfare and workers' rights—is endangered by “a not inconsiderable section of the economic elite”, frets the conservative interior minister, Wolfgang Schäuble. The left, especially the ex-communist Left Party, hopes to benefit from all this, starting with elections in the city-state of Hamburg on February 24th.

But Mr Zumwinkel's downfall does not fit tidily into a fable about the cruelties of capitalism. True, he managed Deutsche Post's privatisation. But the “yellow eminence” (an epithet drawn from the colour of the Post's logo) was a practitioner of socially conscious “Rhineland capitalism” rather than the supposedly heartless American variety that is gaining dominance through the growing clout of the capital markets. His final achievement combined social correctness with self-enrichment. Last year Mr Zumwinkel helped introduce a minimum wage to the postal sector, which had the intended side-effect of discouraging competitors poised to exploit the ending of Deutsche Post's monopoly over letter delivery on January 1st 2008. Mr Zumwinkel cashed in on the resulting rally in Deutsche Post's shares: a mistake, he later admitted. The second named victim of the tax sweep is a public official, Bavaria's data-protection chief. Yet despite the scandals, trust in the market economy has recovered from the low it reached in 2005, according to Allensbach, a polling firm, probably because growth and employment have been strong.

The Liechtenstein affair is more a test of the judicial system than the economic one. The spectacle of tax inspectors pursuing Germany's richest citizens may bolster faith in the rule of law but is the outcome of a bizarre process. Early in 2006 a person known to the German press as “the informant” offered to sell to Germany's foreign intelligence service a DVD stolen from LGT Group, a firm owned by Liechtenstein's ruling dynasty. It tells investigators everything they need to know about hundreds of Germans who established “foundations” in Liechtenstein to manage their money without disclosing their identities. After tax collectors sampled the merchandise, the intelligence agency paid €4.2m for it, a spectacular bargain.

A committee of the Bundestag is examining whether the agency overstepped its authority in joining the hunt for domestic tax cheats. Liechtenstein's crown prince and Mr Zumwinkel's lawyer have both accused the German government of dealing in “fenced goods”. The courts will decide whether that undermines the case. It is not clear how many suspects will face trial. Frightened by Mr Zumwinkel's example, many are turning themselves in.

The tax blitz is “a healthy shock”, says Dieter Ondracek of the German Tax Union, but it will wear off. More inspectors would raise the fear of discovery, a better deterrent than stiffening penalties, Mr Ondracek thinks. The finance ministry wants to federalise tax collection, which is now split among the 16 *Länder* (states), some of which tame tax inspectors in order to attract investment. The chancellor, Angela

Merkel, demanded that Liechtenstein adhere to international standards for fighting tax evasion and money laundering during a visit by its prime minister, Otmar Hasler, on February 20th. Even if the principality yields, competitors will step in. One candidate: the emirate of Dubai.

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Armenia

Out of Armenia, something new?

Feb 21st 2008 | YEREVAN
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Armenia's new president says he is ready to talk to Azerbaijan

EPA

A cross by Sarkisian's name

ELECTIONS in former Soviet republics rarely yield surprises. The incumbent wins; the opposition cries foul; it takes to the streets. The presidential vote in Armenia on February 19th ran true to form. Serzh Sarkisian, the prime minister, won 53% of the vote, enough to avert a runoff with his main rival, Levon Ter-Petrossian, with 21%. Mr Ter-Petrossian, a former president, said Mr Sarkisian had stolen the vote even before ballots were counted. Independent observers talked of ballot stuffing and intimidation.

Yet, as thousands of demonstrators gathered in central Yerevan, monitors from the Organisation for Security and Co-operation in Europe opined that the election was “mostly in line with the country's international commitments”, even though the vote count in 16% of stations was “bad or very bad”. That verdict makes it more unlikely that the opposition can overturn the result.

Assuming Mr Sarkisian does get the top job, he will have his work cut out. Small and landlocked, Armenia has been blockaded by Azerbaijan and Turkey since it won a vicious war in 1994 for possession of Nagorno-Karabakh, a province of Soviet Azerbaijan that was mostly populated by Armenians. Russian troops patrol some of its borders and, though economic growth has been fuelled by a building boom and dollops of aid from America and the Armenian diaspora, much of the recent wealth is concentrated in the hands of oligarchs. Russia has a huge stake in the economy.

Like the outgoing president, Robert Kocharian, Mr Sarkisian is from Nagorno-Karabakh. Both men were commanders in the war. But unlike his hawkish predecessor, Mr Sarkisian is “a pragmatist, a skilled manager, and receptive to new ideas,” argues Tigran Mkrtchyan, a foreign-policy expert in Yerevan. As defence minister, Mr Sarkisian oversaw Armenia's adhesion to a NATO scheme for former Soviet colonies. This week Mr Sarkisian told your correspondent he was ready to make peace with Azerbaijan so long as it was “an honourable one”. This might include ceding some of the conquered territories outside Nagorno-Karabakh. On Turkey, he struck a more hawkish note, calling Turkey's pre-conditions for establishing diplomatic ties “unacceptable”. Yet long-stalled unofficial talks between the two countries are expected to resume once Mr Sarkisian takes over.

What transpires between Armenia, Turkey and Azerbaijan is not up to Mr Sarkisian alone. Clearing the government of corruption is. One test will be the number of allegedly crooked ministers he boots out of the cabinet. Should he flunk this, Mr Ter-Petrossian's talk of “criminal rule” will ring ever more true.

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French foreign policy

Club Med

Feb 21st 2008 | PARIS
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Nicolas Sarkozy's plan for a Mediterranean Union is in trouble

IT IS supposed to be his Big Idea. He announced the project in his victory speech on election night last May, and entrusted it to one of his closest advisers. Yet President Nicolas Sarkozy's plan for a Mediterranean Union is prompting exasperation both within his government and among fellow Europeans.

Mr Sarkozy's idea, which he summarised in a grandly titled “Appeal from Rome” last December and announced alongside Italian and Spanish leaders, is to get the countries around the Mediterranean to talk to each other in a new forum, where all members are considered equal. Although Mr Sarkozy originally had grandiose ideas for a union that would “overcome all hatred” and bring peace and civilisation to the region that is the cradle of European culture, his ambitions now are more modest. The plan is to deal with non-ideological projects, such as cleaning up the sea or transport links. He has invited the leaders of all the littoral states to Paris on July 13th, ahead of a meeting between them and other European-Union leaders on July 14th, at the start of France's six-month EU presidency.

From the beginning, however, other Europeans have had their doubts. The British were initially suspicious because Mr Sarkozy seemed to see the Mediterranean Union as a way of diverting Turkey from its bid to join the EU (which Britain supports). Others could not understand the need for a new pan-Mediterranean outfit when there is one already, inelegantly named the “Barcelona process”. And who, asked others, would foot the bill?

Most wary of all have been the Germans. Not only did the new union seem devised to exclude them but its relation to the EU has been muddled. At first, the French did not see it as an EU matter. But this, viewed from Berlin, looked like an aggressive move to launch a rival body without following the cherished tradition of Franco-German co-operation. Now that the French have made the launch of the project a quasi-EU event, there is a new concern: finance. Dark voices in Berlin worry that Mr Sarkozy may try to use EU money to take the political credit for projects on the southern shore of the Mediterranean, home to several ex-French colonies.

None of this has helped to soothe relations between Chancellor Angela Merkel and Mr Sarkozy, already strained by disagreements over other matters, from nuclear energy to the role of the European Central Bank. So fraught did Franco-German feelings get recently that Jean-Pierre Jouyet, France's Europe minister, felt compelled to talk in *Le Figaro* newspaper of a “real bone of contention”. “The Germans are very sensitive to the principle of prior consultation,” he said, and gave warning that, if unresolved, this row could mar the French presidency.

In Paris, the outburst by Mr Jouyet, who is of the left, was read as a warning shot across the bows of the adviser in charge of the Mediterranean-Union project, Henri Guaino. A former speechwriter for Mr Sarkozy, and now one of his closest counsellors, Mr Guaino voted against the Maastricht treaty, and is regarded with suspicion by French pro-Europeans. What seems to have frustrated Mr Jouyet is the high-handed way in which Mr Sarkozy's Elysée team had brushed aside German concerns. Last week, to calm matters, Mr Guaino himself went to Berlin.

It remains to be seen whether the project will amount to anything of substance. French officials insist Franco-German differences are now narrowing, and that the Germans are interested in taking part in Mediterranean-Union matters that touch them, such as immigration. All the same, wariness lingers. The Germans, without the necessary shoreline, are not on the guest list for the Paris meeting on July 13th. “Those who want to proceed must be able to do so together,” declared Mr Sarkozy, using a line more commonly deployed by EU enthusiasts against Britain, “but those who don't want to must not stop the others from moving forward.”

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Italy

Pro-life, or pro-Berlusconi?

Feb 21st 2008 | ROME
From The Economist print edition

Abortion surfaces as an election issue

Get article background

ON FEBRUARY 11th, police in Naples questioned a 39-year-old woman in a local hospital after she had had an abortion. At a prosecutor's request, they took away the foetus. Some details are disputed but it seems the prosecutor had sent in the police after a call from a nurse who claimed a baby was being murdered. In fact, said the doctors, it was being aborted within the terms of Italy's 1978 law which governs the procedure. The foetus had been found to have Klinefelter's syndrome, which normally leads to sterility.

In another context, there might have been less of an outcry. Instead, there were “pro-choice” protests in four cities and on February 19th the body that oversees the judiciary announced an inquiry. Abortion has become an issue in Italy's general election campaign and in recent months many supporters of the law have become convinced there is a plan to repeal or restrict it.

Alarm bells sounded in the pro-choice camp four years ago when Catholic lawmakers used a law on in-vitro fertilisation (IVF) treatment to confer rights on embryos from the point of conception. The clanging grew louder when church leaders demanded stricter time-limits on abortions, arguing that scientific advances enabled fetuses to survive earlier outside the womb. “Pro-life” campaigners have long maintained that the 1978 law is applied without restraint. Their cause received a boost when Giuliano Ferrara, editor of a daily, *Il Foglio*, began campaigning for a global moratorium on abortion to match the non-binding declaration against the death penalty, endorsed last December by the United Nations General Assembly. This month, he announced he would stand at the election as head of an anti-abortion slate. Mr Ferrara insists he would not touch the 1978 law. But he would block introduction of the abortion-inducing drug Mifepristone, preserve Italy's strict IVF law and, controversially, allow the resuscitating, without consent from parents, of aborted, viable foetuses.

Unusually for a pro-lifer, Mr Ferrara is an atheist. He says his stance is a matter of moral conviction. But opponents are suspicious. Mr Ferrara was a minister in Mr Berlusconi's first government, in 1994-95. Mrs Berlusconi is the biggest backer of his newspaper. Some believe his aim is to lure Catholics from the centre-left. And though Mr Ferrara could not have known it when he launched his bid, Mr Berlusconi will need all the Catholic supporters he can get. Polls suggest the main centre-left party, led by Walter Veltroni, has narrowed his lead. On February 16th, the stoutly Catholic Christian Democrats, the third-biggest party in the coalition with which Mr Berlusconi governed until 2006, announced they would run alone. At least one recent poll indicated that, with 6% of the vote, they could deny Mr Berlusconi victory.

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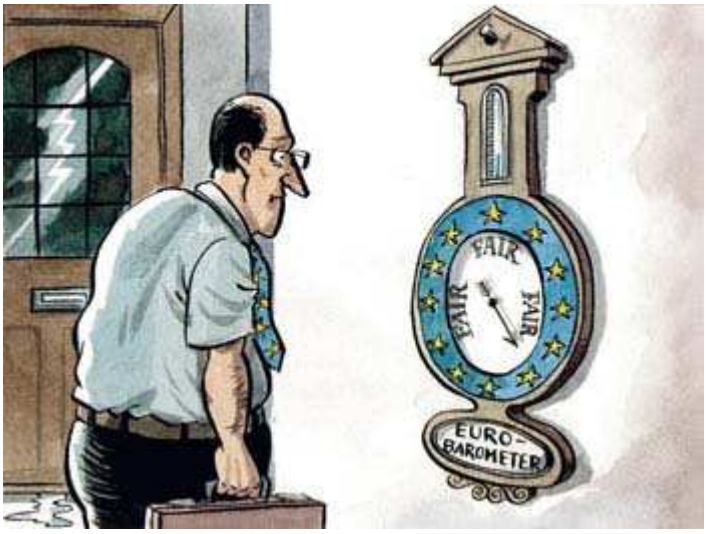
Charlemagne

Ask a silly question

Feb 21st 2008
From The Economist print edition

The European Commission is wrong to think opinion polls can provide it with a democratic mandate

Illustration by Peter Schrank



ONE evening, a Soviet joke relates, Stalin decided to see if he was as beloved as his cronies insisted, so went to a Moscow cinema in disguise. Sitting in the dark as the newsreels began, the tyrant was moved to tears as the audience stood—apparently unbidden—and wildly applauded his image on screen. His reverie was cut short when his neighbour leaned down and hissed: “Comrade, we all hate him too. But it's safest to stand and clap.”

The old joke prompts a question relevant to today's European Union: what does it really mean when unelected leaders fret about public opinion, or yearn to know if ordinary citizens support their favourite policies?

Take the European Commission, the union's powerful executive arm. The politicians who make up its ruling “college” need not fret about elections, as they are nominated by national governments for five-year terms (many commissioners are sent to Brussels as a consolation prize, after rejection by voters at home).

Yet the commission still spends hefty sums (€16.5m, or $22m, last year) on waves of Europe-wide surveys under the “Eurobarometer” banner, some of them involving tens of thousands of individual interviews. The research can be worthy, technocratic stuff. Robert Manchin, European boss of the polling firm Gallup, points to surveys carried out when Malta and Cyprus joined the single currency last month, charting on a daily basis how locals were adjusting to the new currency. Without polls, “this kind of data does not exist at a European level,” says Mr Manchin.

But the use of polls by Brussels is often more political than that, and is set to become more political still. Barring last-minute problems with ratification in some member nations, the new Lisbon treaty is expected to come into force around the end of this year, triggering big and unpredictable shifts in the institutional balance of power in Europe.

The commissioner charged with “communicating Europe to citizens”, Margot Wallstrom, has unveiled proposals for opinion polling to be used “strategically”, so the wrinkles of pan-European opinion are not just taken into account when selling finished laws and directives to the public, but during the cut and thrust of policy making. On paper, the commission's aim is straightforward: to respond to citizens'

concerns about big, trans-national phenomena such as climate change, migration or globalisation, and convince them that action at the European level is the answer. Tantalisingly for Eurocrats, Eurobarometer polls tell them that voters like European-wide action on all sorts of issues (fully 81% say they want joint European action against terrorism). Yet national governments can point to other Eurobarometer polls showing that among the very same citizens, support for the EU is not that high. Across the club, support for EU membership has hovered stubbornly around the 50% mark for years (the most recent poll showed 58% support, a 13-year high).

To some officials, supportive opinion polls offer a form of quasi-democratic mandate. One Brussels official admits that his commissioner “absolutely” uses poll data to browbeat reluctant governments, in private and in public. With the new Lisbon treaty about to create the first full-time president of the EU council (the bit of the machine that represents national governments), the same Brussels official says the commission must become more political and “open” to survive, “especially if we get some fantastic Mr Blair-type as president of the council.”

Not all agree that poll-driven accountability is desirable. A sceptical Eurocrat notes that finance ministries, say, are not loved: competence is enough. “The European Commission is distracted by a desire to be liked by the public,” he says. “There is nothing wrong with being unelected: you need an executive in every system.” Worse, poll questions lead his colleagues to “gigantic conclusions” that may not be true. “We keep saying that everyone in Europe wants the EU to have a louder voice in world politics. But what does that really mean?”

The grandest Euro-mandarins such as Mrs Wallstrom agree that public opinion “should not rule us in the same way as it does national governments”. But Mrs Wallstrom admits that polls have helped change the commission's agenda. Eurobarometer reported that Europeans wanted “visible results” from the commission, which under its president, José Manuel Barroso, was under fire for pursuing too business-friendly an agenda. The result, she says, is less dry talk about “better regulation”, and more crowd-pleasing consumer initiatives, such as bullying mobile-telephone companies to lower roaming charges.

Poll-ish jokes

Since their birth in 1973, Eurobarometers have pursued multiple goals. The Frenchman who invented them called the polls a means of promoting integration, by showing Europeans in different nations where they agreed and disagreed. But officials cannot reasonably pretend that their polls equate to a democratic mandate. For one thing, the commission is notorious for only asking questions to which it wants answers (Eurobarometer data must be published within two years, unlike national polling which is often kept secret). In an infamous incident last year, the commission trumpeted a poll showing 80% support for the European satellite navigation system, Galileo, and 63% support for spending billions on it, though only 40% of respondents had heard of Galileo before they were telephoned for the survey. Polls on sensitive subjects such as racism or religion are routinely neutered, to avoid questions that might reveal differing degrees of tolerance in EU nations.

The European Commission has always been a strange hybrid: a civil service run by politicians, with a monopoly on proposing new EU laws and rules. In power-struggles with national governments, claiming voter support must be tempting. But Brussels should remember that detecting public support is not the same thing as actual democracy: just ask any Soviet-era comic.

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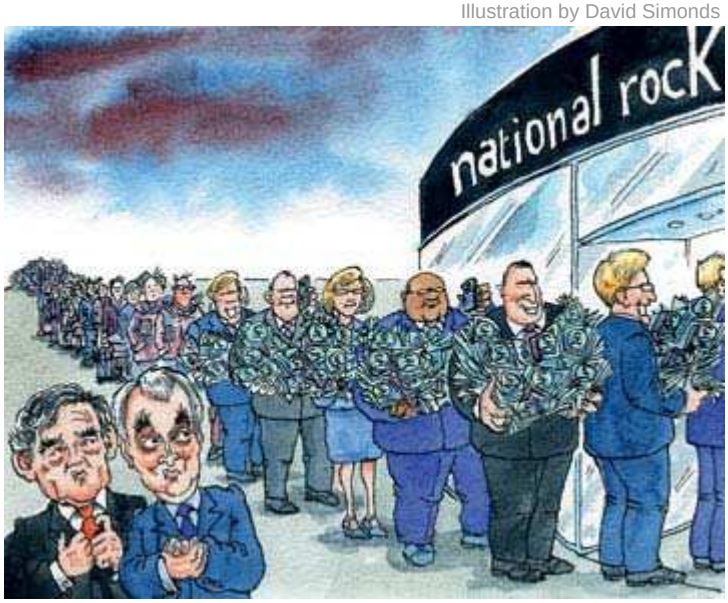
Nationalising Northern Rock

A bank by any other name

Feb 21st 2008
From The Economist print edition

Illustration by David Simonds



Bad enough for Labour, but no Black Wednesday

WHEN the once-unthinkable finally happened, there was a weary inevitability about it. In the six months since Northern Rock's cash dried up and it turned to the central bank for help, would-be rescuers of the stricken mortgage lender had fallen one by one by the wayside. By the time Alistair Darling, the chancellor, announced on February 17th that Northern Rock was to be nationalised, only the Sunday timing was unexpected. And for all the party-political outcry that erupted on the news, there was little doubt that Parliament would pass a law bringing the bank into public ownership.

The truth is that there was never much chance a private-sector buyer could be found willing and able to get the bank on an even keel and to repay the government promptly its £55 billion ($108 billion) in loans and guarantees. So two things are interesting now. The first is what sort of fist the bank's new managers will make of things (see article). The second is how much damage his reluctant decision to nationalise it will do to Gordon Brown, the prime minister.

For nationalisation is, in the New Labour lexicon, the economic policy that dares not speak its name. The very word summons up the dark days of the 1970s, when Labour presided over failing state-owned firms and bitter strikes, and was then voted out of office for 18 years. The party's right wing fought for decades to expunge nationalisation from the movement's creed, but not until Tony Blair was leader did they manage to ditch the commitment to “common ownership of the means of production”. Labour politicians of Mr Brown's generation particularly are scarred by the experience; economic policy during his time as chancellor was resolutely market-oriented.

Now his opponents are keen to use Northern Rock to show that the chancellor's economic management is not all it is cracked up to be, and to suggest that Britain is backsliding. The Tories call Northern Rock “Labour's Black Wednesday”, recalling their own humiliation in 1992 when sterling was ejected from the European exchange-rate mechanism and the Conservative government's reputation for economic competence torpedoed. They cite Mr Brown's delay in deciding the bank's fate as another sign of his propensity to dither, a charge he has been unable to shake since he allowed prolonged speculation over a snap election last autumn. Yet so far voters are having none of it.

As polling conducted for *The Economist* by YouGov shows, the Tories do not seem to have gained from Labour's woes. Only 5% of people blame the government for Northern Rock's difficulties; over a third

think its handling of the crisis has been fair or good (see chart). And critics say the Tories' own response has been shrill. Conservatives pretend to believe that this view does not resonate beyond parliamentary sketch-writers and other denizens of the Westminster village—but only a fifth of voters say the main opposition party would have handled the crisis any better than the government. Almost two-thirds think the Tories are playing politics by opposing nationalisation; their own proposal—putting the bank into administration by the Bank of England and winding it down—is not all that different.

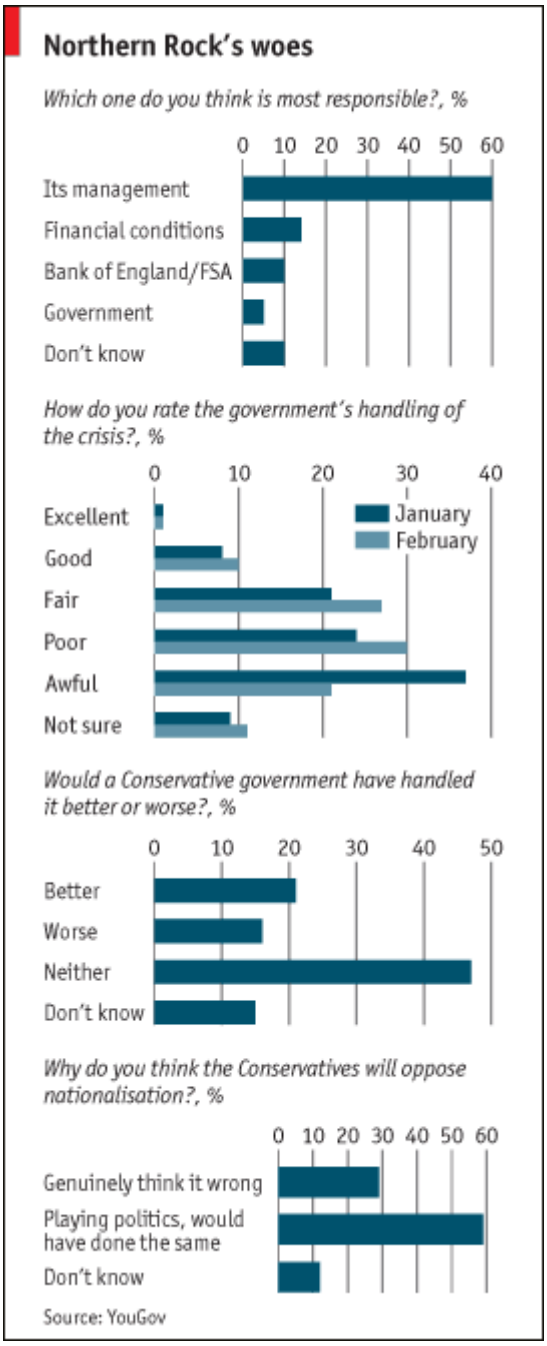
By common consent, the only politician to have emerged from the Northern Rock saga with much kudos is Vince Cable, the Liberal Democrats' Treasury spokesman, who impressed as the party's caretaker leader before Nick Clegg was elected to the job in December. An economist by background, Mr Cable was among the first to suggest that public ownership was the “least worst” option for the bank.

But although Mr Brown and his team have escaped harsh popular censure, the belated decision to nationalise Northern Rock has nevertheless wounded them. For this is not their only economic woe. Mr Darling has been forced into embarrassing retreats on the taxing of capital gains and non-domiciled residents; next month's budget is expected to bring bad news on growth and inflation. And Northern Rock echoes the government's own profligacy: the Conservatives note the irony of an insolvent bank being “rescued” by a government with a budget deficit of around 3% of GDP. The Tories have enjoyed for some time now a small but steady poll lead on the issue of economic competence.

The biggest problem for the government, however, is that Northern Rock is likely to remain a thorn in its side for years to come. Few expect the bank to be sold before the next election, which is due by May 2010, and a steady drip of bad news could continue until then.

Many of the bank's staff work at its headquarters in the north-east, a Labour heartland. Though Mr Brown and Mr Darling have been at pains to stress that Northern Rock will be run at arm's length from the government, they may not be able to escape blame for tough decisions, such as job cuts and home repossessions. These will be especially unpopular against the backdrop of well-remunerated managers and interested parties: Ron Sandler, Northern Rock's new boss, will earn £90,000 a month, and Goldman Sachs, an investment bank, and Slaughter and May, a law firm, are among the advisers that will get fat fees for their counsel.

However ominous the symbolism, Britain's first nationalisation for a generation has not killed Mr Brown's government in the way that Black Wednesday finished the Tories. But it could prove one of the thousand cuts that do.



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Northern Rock's future

In the state's tender hands

Feb 21st 2008
From The Economist print edition

Profiting from the nationalised bank may prove harder than rescuing it

THE bare slipways of Harland & Wolff's shipyards in Belfast and the echoing halls of the Longbridge car plant in Birmingham were once the largest of their kind in the world, the birthplaces of, respectively, the *Titanic* and the Austin Healey sports car. Today they are decaying reminders that the once-fashionable practice of putting civil servants in charge of businesses is no basis for a sound economy.

So it seems a bit strange that a man as steeped in history as the prime minister should have advanced to the podium with a confident smile to present the nationalisation of Northern Rock this week to the nation's sceptical press. That a government takeover of the bust mortgage lender is the best of a bad range of options is increasingly apparent, if the state is to recover a reasonable chunk of the £25 billion ($49 billion) in loans and £30 billion in guarantees it has extended to the bank (to say nothing of a fee for its help). But will taxpayers actually make money from the arrangement, as Gordon Brown says he thinks “entirely possible”?

The answer depends largely on two things. The first is how much the government has to pay the bank's shareholders in compensation. The shares were trading at £0.90 before they were suspended on February 18th; but sharp-elbowed hedge-fund investors claim they are worth around £4.25 and threaten to make the government's life a legal hell if they are fobbed off with less. An arbiter, asked to assess what the bank would have been worth without government aid, may well conclude zero but the courts could decide differently.

The second unknown is just how Northern Rock is to be run. Mr Brown and his chancellor of the exchequer, Alistair Darling, have made it clear that the bank will be managed at arm's length—by Ron Sandler, the saviour a decade ago of Lloyd's of London, the insurance market—and as a going concern, rather than run off gradually. But just how big, aggressive and profit-seeking it will be remains to be seen.

One obstacle to maximising its value for taxpayers is that Northern Rock will almost certainly have to shrink, perhaps dramatically. The government must send the bank's new business plan to the European Union's watchdogs to make sure that the state-aided bank does not contravene its rules on unfair competition. The Eurocrats are likely to suggest cutting back.

Although shrinking should be easy enough—Northern Rock's mortgages have an average life of less than three years because borrowers look for better deals when fixed-rate loans are due to reprice—it is not clear that doing so would improve profitability. By deliberately overpricing the product to get rid of customers the bank will damage the quality of its book: good customers will sail off to better offers elsewhere while the ones who flunk other banks' credit-scores will stay on the books.

A second reason why shrinking will be difficult has to do with Granite, the top-rated securitisation vehicle that turned about half of Northern Rock's mortgages into bonds. Like a finely balanced gyroscope that has to keep spinning to stay upright, Granite needs a steady supply of mortgages fed into its pool of collateral to replace ones that are redeemed early. If that does not happen, Granite could be forced to close, which would shut off Northern Rock's cheapest source of finance. It could also tie up, perhaps for years, £4 billion in extra collateral that Northern Rock put into Granite.

Charting a path past such pitfalls is not impossible. But it seems so perilous that those bidding for Northern Rock could neither find funding nor see a profit after paying the government a reasonable fee to share the risk. Mr Brown acted correctly in going down the hard route of nationalisation when a poor private-sector deal would have swept those uncomfortable facts under the table. But he cannot yet count on a happy ending to this tale.

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Multicultural backtracking

The search for social glue

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New thoughts about how to promote social cohesion

SWIMMING pools, one of the iconic battlegrounds of America's civil-rights movement, are again the setting for arguments about race and integration. In modern Britain, however, it tends to be right-wingers who want everyone to splash about together, whereas more liberal sorts tolerate separate sessions on the grounds that it encourages minorities to take part. So far, the latter group has been winning: pools in most big towns have women-only nights, aimed mainly at tempting modest Muslims into the water.

Sectarian swimming has yet to start a riot. But it is an example of the organised ethnic divisions that pervade most cities. Take Liverpool, whose council brandishes a long list of “ethnic support groups”, from an Afro-Caribbean lunch club to a forum for Chinese diabetics. Ghanaians, Somalis and Sierra Leoneans each have their own club. There are 122 in total.

The government has become uneasy about this. Hazel Blears, the communities secretary, published draft guidelines for local authorities this month suggesting they curb their funding of outfits that cater to single ethnic or religious groups. Councils should not “risk using public money on projects that might... unnecessarily keep people apart,” she said. An official report on community cohesion last summer warned that “single-identity” organisations encouraged ethnic minorities to remain in a “comfort zone” of their own kin.

Yet the government has previously feathered such comfort zones. State-funded “faith schools” can select students according to their religious background. Labour has also financed the religious community groups that it is now wary of. In 2005 it established a “Faith Communities Capacity-Building Fund” to dish out millions to religiously inspired projects such as Muslim women's groups that, it said then, were the key to cohesion. Jane Humm, who helps to oversee the fund, thinks the government is now talking at cross-purposes.

The arguments are finely balanced. Pushing integration could foster better bonds between ethnic communities, keep religious extremism in check and prevent the build-up of grievances that sparked rioting by Asian youths in northern towns in 2001 and feeds far-right parties. And there is plenty of common ground to exploit: poverty, for example, which inspires many of the campaigns run by TELCO, an east London community group whose members include Zimbabwean Catholics, London Underground trade unionists and those who attend the local mosque.

But narrowly focused groups can work as confidence-boosting stepping-stones. A drop-in for Somali women could lead them to try mainstream child-care services, for example. Dedicated centres can offer better language support too and tackle specific problems. (Those Chinese diabetics, for instance, are actually more likely to develop the illness than most.)

Neither segregation nor a one-size-fits-all approach is appealing. But there is room for compromise. “Single-identity” religious groups tend to be surprisingly outward-looking: more than 70% of Christian groups work with Muslims, and vice-versa. (Hindu organisations build even more bridges.) And most groups simply reflect the make-up of their neighbourhood, says Sukhvinder Kaur Stubbs of the Barrow Cadbury Trust, a research and grant-giving body. She cites a Birmingham group, Ashiana, which began as an advice centre for Asians but took on Irish and Somali clients as the local mix changed.

The new guidelines are likely to require more of this mingling from groups applying for council funds. Much will depend on how rigidly local authorities interpret them. In the past, some have focused on flimsy cultural-exchange programmes, of the “pancakes and poppadoms” variety. As TELCO shows with its multicoloured marches to improve working conditions, revealing the common ground that already exists may be more fruitful than trying to create it.

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Reporting suicide

Beware of imitations

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Bad news must be told. But freedom of speech is compatible with tact

BEFORE the *Sun,* there was Goethe. Two centuries ago, before Britain's boisterous tabloid newspaper had been invented, German parents were reeling from a spate of suicides that were apparently linked to a tragic novel. Goethe's 1774 tear-jerker, “The Sorrows of Young Werther”, is believed to have inspired scores of young men to shoot themselves, as the story's sensitive hero does. “Werther fever”, as the craze became known, swept across Europe.

A similarly gruesome trend appears to be under way in South Wales. In little over a year, 17 young people are believed to have committed suicide in Bridgend, a borough of 130,000 whose annual suicide count for under-30s is normally around three. Connections between some victims—through family, friends or social-networking websites—initially raised fears of a suicide pact or internet cult, a theory that gained momentum as people kept dying in the same way. But on February 19th local police debunked the notion. The real link, they said, could be the media, which may have inspired more deaths by keeping the subject in the public eye.

They may be right. Ever since “Werther”, academics have noted the power of all types of media to tip the vulnerable over the edge. A review of such studies by Oxford University's Centre for Suicide Research concluded that press coverage can influence both the number of subsequent deaths and the method. Television, a favourite medium of the very young and very old, was especially powerful. And fiction was as influential as factual programming. A German TV drama featuring a railway suicide inspired a rise in suicides on the tracks—and did so again when it was repeated a few years later.

Pitifully simple measures, such as selling painkillers in smaller quantities, have been shown to dissuade people from taking the plunge. Modest restraint in reporting might help too. In 2006 the Press Complaints Commission, a media watchdog, decreed that journalists should avoid using “excessive detail” about methods of suicide, to stop potential victims learning how many pills to swallow or how far to jump. Two local newspapers have since had to run apologies for printing details of a man's electrocution in the bath. South Wales police would like to see less coverage still, fearing that even vague details have planted ideas in young minds. Editors counter that the same could be said of much bad news: excising reports about crime, for example, might reduce anxiety, but by concealing the truth would stifle the opportunity to do something about it.

In that case, they might try harder not to stretch the truth. Three months ago Gnosall, a pretty Staffordshire village, was dubbed the “village of the doomed” after five suicides in nine months—plenty for a small place, but no apocalypse. After repeated press reports and non-stop candle-lit vigils, a sixth decided to follow suit. Resisting the temptation to ramp up such stories might prevent more tragedies. Though, of course, those parents who chuck out the *Sun* should also think about binning “Faust”.

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Climate change and local government

Grassroots

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Greenery from the bottom up

A MULTI-STOREY car park in Woking, a commuter town just south of London, makes an unlikely totem for environmentalism. Only the chimney on the roof and the faint smell of burnt hydrocarbons betray its status as the centrepiece of Britain's greenest local council. Besides parking spaces, the building contains a 1.3MW gas-fired combined heat-and-power (CHP) plant that supplies electricity and heat (the latter a waste product in ordinary power stations) to council offices, a hotel and several other city-centre businesses. With help from solar-powered parking meters, another CHP plant at the municipal swimming pool and an energy-efficiency drive, Woking has cut its carbon emissions by 21% since 1990, nine percentage points more than the national target.

Other councils are thinking along similar lines. The Isle of Wight, off the south coast in the Solent, aspires to become self-sufficient in energy over the next few decades through a combination of tidal power, a waste-to-electricity plant and efficiency savings. London has set up its own Climate Change Agency headed by Alan Jones, who provided many of Woking's green ideas. It wants to cut London's carbon emissions by 60% by 2025. To that end, its city hall is covered in solar panels and there are plans to fit cosier insulation to local-government buildings, build four waste-to-energy plants and buy 500 hybrid diesel-electric buses by 2010. Over half of Britain's 434 councils have signed the portentous-sounding Nottingham Declaration on Climate Change (or its Welsh and Scottish equivalents).

For local politicians, greenery is a welcome relief from duller concerns such as bin collections, lollipop ladies and parking charges. Fighting climate change allows councils—which are usually kept on a tight leash by an overweening central government—a rare chance to look and sound statesmanlike. Even without central-government approval, money can be found for big projects if the accountants are creative enough. David Pugh, the leader of the Isle of Wight council, is hoping to interest Southampton University, which has a big marine-research division, in his tidal-power plans. Woking's CHP plant was built by Thameswey Energy, a joint venture between the council and ESCO International, a Danish firm, set up partly to get around Whitehall's funding constraints. The company does business outside Woking too: it is planning a 6MW CHP system for Milton Keynes, in Hertfordshire.

Despite all this, saving the planet is not obviously a subject that comes within the purview of local government. The councils' lobby group, the Local Government Association, argues, perhaps optimistically, that councils are in a better position than distant Whitehall to persuade voters to mend their ways. Mr Pugh agrees: “I don't think the big hand of central government is best placed to address this. It's really a grassroots thing.”

And grassroots enthusiasm for greenery is certainly growing. Residents of 31 British towns have joined the “Transition Town” movement, for example, as have a few in New Zealand, Ireland and Australia. Such local determination may turn out to be more powerful than windy rhetoric from central government—even if the initiative's grand plans for “unleashing its own latent collective genius to look Peak Oil and Climate Change squarely in the eye” are perhaps a little melodramatic.

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Company-pension plans

Running up the down escalator

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New rules will raise funding costs yet again

Get article background

IN RECENT years firms have stuffed a lot more money into their final-salary pension schemes. With a fair wind from more favourable markets, that helped to plug the big deficits that had emerged.

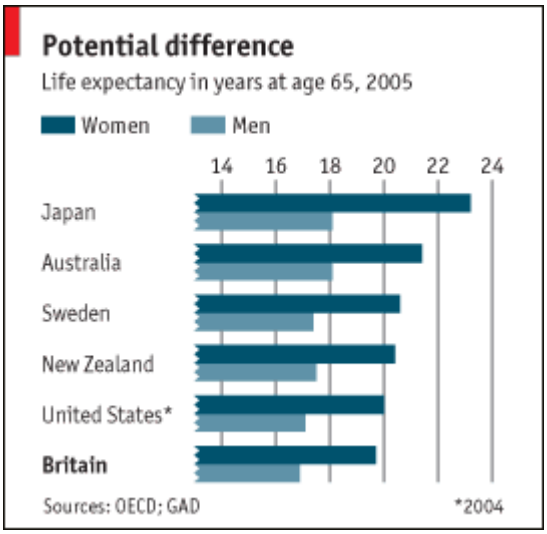
Now it turns out that some of the improvement may be illusory. The Pensions Regulator said this week in a consultation paper that it will insist on tougher assumptions about longevity trends when the trustees responsible for the schemes get actuarial valuations. The new guidance will increase pension liabilities, as may recent proposals from accountancy rule-setters.

Actuaries have been caught out by startling falls in death rates among older people. In the 1980s life expectancy for men aged 65 rose by a year. In the 1990s it went up by two years, and official forecasts suggest that it will increase by 2.5 years in the current decade. Gains for women aged 65, who live longer than men, have been less dramatic—an extra year a decade in the 1980s and 1990s—but they have also picked up, to 1.5 years, in the 2000s.

These big improvements reflect especially steep falls in death rates for people born between 1920 and 1945. A crucial question is how much longer this “golden cohort” will lead the way to lower mortality. According to the regulator, 55% of pension schemes have been assuming that the big declines in death rates will taper away to more normal falls by 2020; 11% that they will fade by 2010; and virtually all the others have paid no heed to the phenomenon.

The watchdog wants schemes to pick 2040 as the date when the golden cohort's super-fast mortality reductions draw to an end. It is also serving notice on valuations that assume an eventual end to improvements in longevity. Instead they should allow for future falls in death rates of at least 1% a year. The scope for further gains in life expectancy is clear in the gap between Britain and other countries where longevity is higher, especially for women (see chart).

The new guidance may be more realistic but it will be a cold shower for firms with final-salary schemes. It will raise life-expectancy assumptions for people retiring today by two to three years, says John Ralfe, a pension specialist. According to the regulator, an increase of a year pushes up pension-scheme liabilities by 2.5%, which suggests that they would rise by between 5% and 7.5%. Mike Smedley, a pensions partner at KPMG, an accountancy firm, thinks that the liabilities will rise by as much as 10%.



The watchdog's tough line on longevity is not the only worry for firms with final-salary schemes. In a recent discussion paper, the Accounting Standards Board (ASB) called for the discount rate, which is used to calculate the present value of future pensions, to be based on government rather than high-quality corporate bonds. This would push up pension-scheme liabilities, which vary inversely with the discount rate, because gilts are safer than company debt and so have a lower yield.

Like the regulator's guidance on longevity, the ASB's proposal injects realism. If companies generally become more likely to default, then corporate-bond spreads—the extra interest they pay compared with gilts—will rise. Perversely, that will shrink pension-plan liabilities even though the firms backing the

schemes have become less creditworthy.

It will take several years for the ASB's new approach, if adopted, to affect company accounts. Yet, together with the regulator's move on longevity, the reform could have an unfortunate consequence for pension-scheme members. More firms may conclude that maintaining a defined-benefit scheme—even one closed to new members—is the financial equivalent of running up the down escalator.

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Official statistics

Making them count

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From The Economist print edition

Spinning the figures will soon get harder—but not impossible

STATISTICIANS are used to remaining off-stage while their creations steal the limelight. But occasionally the curtain twitches, exposing frantic activity behind the scenes: Herculean efforts in data-gathering; heroic assumptions in analysis. Last autumn the public was treated to such a spectacle when figures purporting to show that newly-created jobs had gone mostly to natives rather than immigrants were corrected, then corrected again.

At such moments it becomes clear that numbers are worthy of trust only if what goes on off-stage is too. About this Britons are sceptical, and it is not the statisticians they blame. Fewer than a fifth believe official figures are produced without political interference, and even fewer that the government uses them honestly.

The next act may be about to commence—with a change of scenery and some encouraging noises off. The UK Statistics Authority comes into being on April 1st: independent of government, it will oversee all official figures, chastising anyone who misuses them and publicising flaws. Unlike its predecessor, the Statistics Commission—which had long pointed out weaknesses in migration statistics, to no avail—it will have the power to enforce improvements. The commission's chairman is a member, which should help to ensure a speedy start. And the chairman designate, Sir Michael Scholar, has already demonstrated his independence by making public some of his concerns.

Currently, many important figures—crime rates, hospital-waiting times, exam results—come from departments responsible for policy and implementation. Ministers often get to see them as much as a week before publication. This gives time to rehearse flattering interpretations and craft eye-catching initiatives with which to overshadow the figures. Although pleased that the government has agreed to cut this sneak preview period from a week to a day, Sir Michael says that the decision should have been the authority's to make, and that it would have been tougher: Britain “should be in line with best international practice—three hours or less”.

But there is still much to play for. The authority is to set up a statistical publication centre, so that even if departments continue to spin appealing tales, their confections will appear separately from the figures and thus have less power to contaminate them. How exactly this separation of powers will work is unclear, but Sir Michael says he is determined to make the new arrangements bite.

Another concern is the way the authority will interact with Parliament. It is to report to the Public Administration Committee, which already has its hands full with such tricky matters as cash for honours and the role of political lobbyists. “The idea that they could take on the whole range of statistics is quite absurd,” says Lord Jenkin, who has got his fellow peers' backing for a new Statistics Committee of both Houses. Sadly, it appears that ministers aren't keen. “Departments are desperate to keep their right to spin the statistics,” says Lord Jenkin. “Ministers and their political advisors think this is one of the tools they have to influence public opinion.”

The Statistics Authority will be able to step in when major rows blow up. But it expects to pronounce *ex cathedra* only in real statistical emergencies. Fortunately, a more easily provoked commentator may soon be on hand. “The misuse of statistics by politicians, advertisers and the media is turning from a disease into an epidemic,” says Lord Lipsey, who has called a meeting at the House of Lords for March 17th to gauge support for a “Campaign for Real Statistics”. He envisages a nimble operation—a website, a letterhead and perhaps a part-time researcher—to complement the weighty pronouncements of the authority with quick-fire commentary on statistical tomfoolery wherever it is found. Perhaps the next time the curtains twitch, the scene revealed will inspire more confidence.

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Economist.com WORLD INTERNATIONAL

Global health

The side-effects of doing good

Feb 21st 2008 | NEW YORK
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The audacity of the Gates Foundation may have unintended consequences, but things would be worse if UN bureaucracies still dominated the field

AP

Get article background

IS IT possible—even in theory—for an organisation to work too hard for the benefit of humanity, or to devote too much money to the eradication of a deadly disease? To judge by some of the recent bickering between leading players in the field of global health, there are serious people who in answer to those questions would say, “paradoxically enough, yes.”

At the heart of the argument is the Bill & Melinda Gates Foundation, which has often been called the biggest philanthropic organisation—at least among those whose accounts and internal workings are open to public scrutiny—in the world. Since Mr and Mrs Gates (pictured above) established the charity in 2000, it has spent over $8 billion on improving global health, and won deservedly lavish praise for its efforts.

But just as huge, powerful countries can be awkward neighbours—a Canadian leader once likened his country's relations with the United States to a mouse bedding down with an elephant—lavishly funded organisations can sometimes cause resentment among other outfits which are struggling to do a similar job. And whether because of jealousy or legitimate concerns, the Gates Foundation has not been having such an easy time of late with its public image. The philanthropic world was well enough prepared for the recent announcement that Patricia Stonesifer, the foundation's charismatic boss, will move on before the end of the year—but it was surprised that no successor was named.

More seriously, perhaps, the *New York Times* this week published bits of an internal document from the World Health Organisation (WHO)—a letter from its chief malaria-fighter to the agency's boss, Margaret Chan—which alleged that the Gates Foundation was having a negative influence on research into killer diseases.

The letter from Arata Kochi, a feisty veteran of the global public-health scene, said the excessive sway of the Gates Foundation was distorting research priorities and quashing independent thinking by sweeping up the best scientists and keeping them “locked up in a cartel”. However unintended this effect might be, the charity's might was marring the process of peer review because researchers were now bunched into groups which were competing for Gates funding, and each member of such a group had “a vested interest to safeguard the work of the other”.

Dr Kochi's outburst prompted some other critics of the Seattle-based charity to reiterate their own long-nursed complaints. Some blame the foundation for being slow to specify areas it will definitely not invest in; as a result, they say, smaller outfits fear to enter certain fields, because of the risk that the Gates people will jump in. Others also worry that the foundation concentrates too much on glamorous science and long-term technology bets, and not enough on putting boots on the ground in places like Africa.

What do these criticisms add up to? Not much, if officialdom is to be believed. A spokesman for Dr Chan insists the charges attributed to Dr Kochi do not reflect her organisation's official views. The Gates Foundation, keen to avoid a public row, also downplays them.

And yet Dr Kochi remains unbowed. He still insists that the foundation's massive spending on malaria research is a classic case of a near-monopoly leading to market failure: in this case, a market in medical prowess. Not that he resents everything the Gates Foundation did to combat malaria: governments, he notes, had failed to invest in this area, so the foundation's decision to throw money at malaria was laudable. But there were unforeseen effects: “Gates can solve problems with money—but a lot of money leads to a monopoly, and discourages smaller rivals and intellectual competition.”

Dr Kochi also challenges the foundation's recent proclamation that the total eradication of malaria is a realistic goal. “Like going to the moon, it sounds really good,” he says—but he is still convinced that this dream is impossible to fulfil with the current tools, and that trying to do so may have bad side-effects.

Such “over-reach”, in Dr Kochi's view, amounts to a costly, risky diversion of resources away from the realistic aim of just controlling malaria. He also says the foundation bets too much on particular treatments, such as the artemisinin combination therapy (ACT)—a combination of drugs based on Chinese herbs. Although ACT does work better than older therapies, there are signs that drug-resistant strains of the disease are emerging. Dr Kochi frets about what will happen if, under the Gates influence, malaria researchers put “all the eggs in that one basket.”

How substantial are these charges? It is plain that the organisation's wealth and targeted approach do attract clusters of leading researchers to specific areas; indeed, that is the whole idea. It is also true, argues Laurie Garrett of the Council on Foreign Relations, an American think-tank, that the charity's focus on “measurable outcomes in a short time, while a fantastic improvement on the past, exacerbates the devastating shortages of health-care workers on the ground.” Even Tadataka Yamada, head of the Gates Foundation's global health efforts, admits that in the past it may have focused too much on high-profile research and not enough on boosting entire health systems.

But some good points can be made in defence of the Gates approach. First of all, argues Dr Yamada, calling this organisation an emerging monopoly is “way off base”. The foundation often collaborates with other charities, and jostles with other big agencies and newish funders, such as PEPFAR (George Bush's AIDS effort) and the Global Fund to Fight AIDS, Tuberculosis and Malaria. This week the White House announced yet another tropical health initiative: a $350m effort to combat seven neglected diseases.

Dr Yamada also challenges the “eggs in one basket” theory. Although it is true that Mr Gates personally has argued for the eradication of malaria, and that his charity does heavily support ACT therapies, the charity also uses a range of other approaches, like malaria vaccines and bed nets. Dr Yamada says frankly that “we don't have to choose between one thing and the other: we have enough resources to do both.”

That, of course, is just the sort of cockiness that rankles with health pundits. At least in part, the gripes against the Gates Foundation are the churlish growls of a jealous crowd of bureaucrats and labourers at less influential charities. Some people at the WHO, a Geneva-based arm of the United Nations, openly worry that the foundation is setting up a new power centre that may rival their organisation's authority. Such conspiracy theorists point to the foundation's recent grant of over $100m to the University of Washington to evaluate health treatments and monitor national health systems—jobs supposed to be done by the UN agency.

Therein lies an irony. The WHO, one of whose captains now calls the Gates Foundation monopolistic, used itself to hold a monopoly in the fight against malaria, and it did a lousy job as a result. Indeed, Dr Kochi himself has been refreshingly frank about the WHO's poor record in fighting the disease. The agency has also been criticised for accepting poor data from member countries which may downplay bad news. As Dr Chan says candidly, that charge “is a reality”. It is not her role, she says, to “name and shame” countries; she prefers to exert private pressure. But she acknowledges that some public pressure is essential, and applauds the role played by the media and charities in “shining the light” on previously

obscure places.

A big new non-government organisation, crashing into the jungle like a young elephant, is bound to cause resentment, and perhaps bound to have unintended ripple effects. But without this elephant's input of new money and ideas, the battle-front against malaria and other deadly diseases might present an even worse picture, especially if the field were left to governments and inter-governmental bodies.

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Refugees from Iraq

Less than generous

Feb 21st 2008
From The Economist print edition

Rich countries have wobbled in their treatment of the most vulnerable

AFP

Moving to Michigan: a happy change of circumstance

WHETHER they supported the American-led campaign to topple Saddam Hussein or denounced it, all rich countries now agree that the turmoil which engulfed Iraq after the war was a tragedy whose victims should be succoured. But by no means all wealthy countries are prepared to back up those compassionate sentiments with money or hospitality.

Of the 4m Iraqis who have been displaced by conflict at various times, about half are still inside the country. Most of the rest found shelter of sorts in nearby places, like Syria and Jordan. But there is an important third category: people deemed by the United Nations' refugee agency to be extremely vulnerable and in need of relocation somewhere far from the region.

Some of these people are at risk because they, or members of their families, worked for the American-led administration of Iraq, or for Western humanitarian agencies. Others belong to ethnic or religious minorities: these include Christians, and Palestinians who are seen by some Iraqis as collaborators with the old regime. Also viewed as vulnerable are families with no healthy bread-winners.

The office of the UN High Commissioner for Refugees says that some 80,000 to 100,000 of Iraq's refugees are in pressing need of resettlement outside the region. But few have found new homes.

The American government has been under especially strong pressure as the instigator of the war and the past employer of many of the Iraqis who are now at risk. Last September, the State Department made a promise that 12,000 Iraqis would be resettled in America over the coming 12 months.

And in the course of 2007, American authorities began dealing with more than 15,000 cases which had been presented to them by the UNHCR. But in practice, there are hurdles between the “acceptance in principle” which is implied by the start of the bureaucratic process, and actually beginning a new life. Only 2,600 Iraqis were resettled in America last year, and that was a jump from previous years.

Among America's allies in the war, the picture is mixed. Australia is credited with a decent record in relation to its size: it took in 464 vulnerable Iraqis last year. But Britain, America's most important military partner, received just 24. Canada, which did not join the war, sheltered a creditable 793 Iraqis. Almost everywhere—not just in the United States—there are huge procedural obstacles as one government agency after another insists on having its say.

Apart from the unfortunates who seek resettlement with active help from the UNHCR, there is another group: those who make their own way, often at great risk, to Europe, Australia or some other prosperous place and then ask for asylum. However panic-stricken they are, Iraqi asylum-seekers do not simply show up anywhere. They know that some countries are friendlier than others, though in theory all countries should apply the same tests. (Countries may not, under international law, send asylum-seekers back to countries where they have a well-founded fear of persecution.)

Sweden has been the most generous: over 90,000 have made their way to that country (whose total population is only 9m), including almost 19,000 last year alone. And the Swedes have let most stay, granting 90% of claimants formal refugee status in 2006. One Swedish town of 82,000 has taken 5,000 Iraqis. But in 2007, the acceptance rate fell to 72% and it tailed off to around half at the end of the year.

The Swedes, understandably, are running out of patience. This week the Swedish government signed an accord with the authorities in Baghdad, permitting the return of failed asylum-seekers, on the ground that Iraq is no longer a war zone.

Others have been stingier from the start. Denmark, which joined the war effort, gave just 2% of asylum-seekers refugee status in 2006; Britain accepted 12%, and has forcibly repatriated a small number.

Greece—the most common point of entry into the European Union—did not accept a single Iraqi asylum-seeker in 2006; it sends many back to Turkey, whence they are deported to Iraq. No wonder that most Iraqis who enter Greece do their best to bypass its authorities.

Not all those rejected for asylum in their countries of arrival are packed off home. But if they stay, they are stuck in legal limbo, destitute and dependent on charity. If they then commit crimes, the host country deports them instantly. Britain offers modest financial inducements to assist “voluntary” returns to Iraq; refugee advocates call this a euphemism.

Patricia Coelho of the European Council on Refugees and Exiles, a lobby group, says it is “completely unacceptable” that a refugee's fate hangs on which EU country he or she manages to reach. Ms Coelho wants the EU to keep its nine-year-old promise to develop a common asylum policy. But many European countries would only agree to a common policy if it approximated to their own tough line.

Some states have recently shown signs of responding to moral pressure. Britain and Denmark have offered more places for people who helped their military missions in Iraq; Poland will do likewise. But since the 2004 UN resolution which transferred power to Iraq's elected rulers, the whole world has in theory been committed to helping that country; more kindness from a few more countries wouldn't go amiss.

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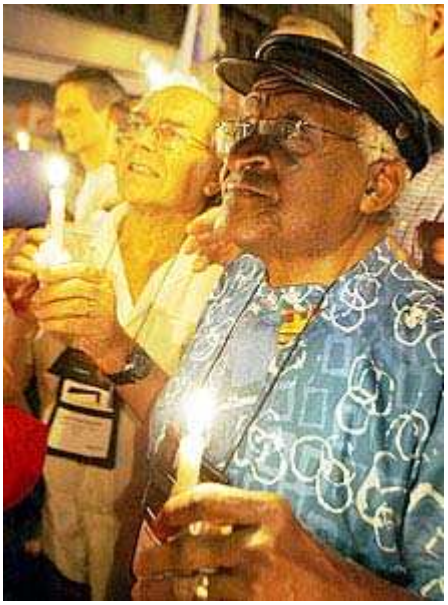
The World Council of Churches

A house still divided

Feb 21st 2008
From The Economist print edition

The drive for Christian unity has seen dashed hopes, and strange successes

AP



Tutu's candle in the wind

IN THE aftermath of both the global conflicts of the 20th century, lots of utopian projects seemed not just feasible, but imperative. In diplomacy, there was the League of Nations—and then the United Nations. And similar ideals swept through the world's largest religion, many of whose adherents had found themselves fighting one another.

Both in the 1920s (when there were moves to reconcile the Anglican and Orthodox churches) and after 1945, there was a surge of hope among well-intentioned Christians that all doctrinal differences could be put aside as believers built a brave new world. That, in a nutshell, was the impulse that led to the creation, in 1948, of the World Council of Churches (WCC), a body that now groups about 350 Christian groups (with the huge exception of the Roman Catholics) and hence claims to speak for about 560m people.

Six decades on, the WCC—whose gorgeously robed “central committee” convened in Geneva this week—finds that some of its early hopes have been sadly disappointed, while others have been partly fulfilled, albeit not always in ways that the founders would have wanted. There are still yawning doctrinal gaps between the liberal Protestants, Anglicans and Orthodox churches who make up the bulk of the council (and between the Catholics and all of them); but there are many situations where such differences matter much less. That is most true in places where Christianity as a whole has lost influence, whether to secularism (in Europe) or Islam (especially in Africa). When, for example, Christians raise their voices in defence of co-religionists in the Middle East, it hardly makes sense to appear too obsessed with the distinctions between different sorts of Maronite and Melkite.

The Christian world is still very divided—but the angriest splits are often within, not between, denominations. For example, there have always been conservative Anglicans who baulked at the WCC's huge emphasis on political causes like the struggle against apartheid, and more recently the rights of the Palestinians—and liberal Anglicans who were comfortable with that line.

In recent years, the WCC has risked being outflanked by Pentecostal and evangelical churches who find the council too woolly on doctrine, and much too left-of-centre in politics, for their liking. And the “Christian Zionist” movement—strongest in America, but growing in many other countries—is totally out of step with the WCC's spirit of solidarity with Palestinian Christians.

In its better moments, the council has been an arena where good bishops from hard places—like South Africa's Desmond Tutu, or Anastasios Yannoulatos, an Orthodox prelate in Albania—could find support. Less happily, the WCC served as a shop-window for Orthodox churches in communist lands which had to parrot the line of their masters. What role the WCC will find over the next 60 years is anybody's guess; but it will plough on somehow.

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Agriculture

The next green revolution

Feb 21st 2008 | NEW YORK
From The Economist print edition

Europe may not like it, but genetic modification is transforming agriculture

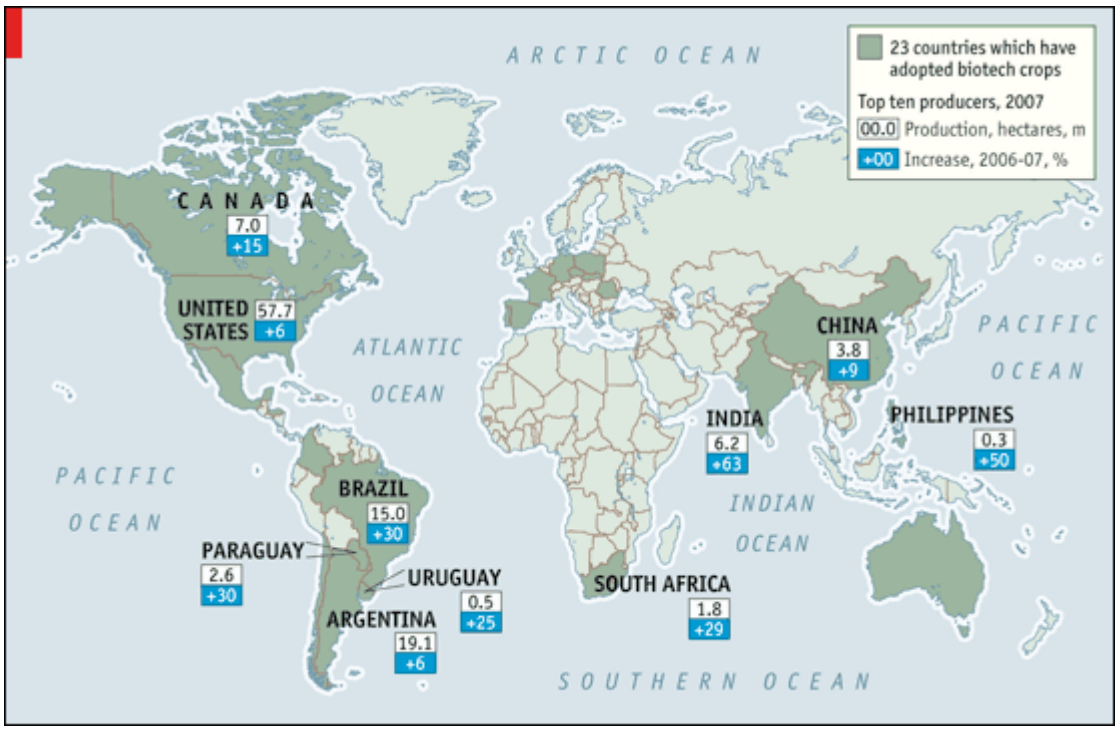
Get article background

FOR a decade Europe has rebuffed efforts by biotechnology firms such as America's Monsanto to promote genetically modified crops. Despite scientific assurances that genetically modified organisms (GMOs) are safe for human consumption, and a ruling by the World Trade Organisation against national import bans in the European Union, many Europeans have yet to touch or taste them. But that may soon change, according to Iain Ferguson, boss of Tate & Lyle, a British food giant. “We sit at a moment of history when GM technology...is a fact of life,” he said this week.

Mr Ferguson, who is also the head of Britain's Food and Drink Federation, argues that because many large agricultural exporters have adopted GMOs, it is becoming expensive to avoid them. Copa-Cogeca, a farmers' lobby, this week warned that the rising cost of feed could wipe out Europe's livestock industry unless bans on GMOs are lifted. Meanwhile, European agriculture ministers failed to agree on whether to allow imports of GM maize and potatoes; the decision will now be made by the European Commission, which is likely to say yes.

If it does, it will be a victory for Monsanto. But the firm is already enjoying an even sweeter form of revenge: huge commercial success. It has had three straight years of revenue and profit growth, and on February 12th it raised its profit forecast for the fiscal year for the second time in two months. Monsanto made a profit of $993m in the year to August, on revenues of $8.6 billion. The global commodity-price boom helps (see article), but Brett Begemann, a senior executive at Monsanto, insists that it is the firm's advances in GMO technology that are fetching premium prices and will help it to double profits by 2012.

The firm's fortunes have been boosted by the success of GMOs outside Europe. A new report from the International Service for the Acquisition of Agri-biotech Applications (ISAAA), a non-profit outfit that tracks industry trends, charts the dramatic growth in the 12 years that GMOs have been commercially available. The area under cultivation increased by 12% last year, to 114m hectares globally. America topped the list, but there is rapid growth in Argentina, Brazil, India and China (see map). Thomas West of Pioneer Hi-Bred, a division of DuPont, says Europe should get on board, as “the train is leaving the station.”



According to Cropnosis, an industry consultancy, the market for agricultural biotechnology grew from about $3 billion in 2001 to over $6 billion in 2006, and is expected to reach $8.4 billion by 2011. Hans Kast, chief executive of Germany's BASF Plant Science, thinks the figure could reach $50 billion by 2025, as a second generation of GMO technology, now in the pipeline, reaches the market.

Proponents of GMOs are optimistic because a confluence of social, commercial and technological forces is boosting the case for the technology. As India and China grow richer, the world is likely to need much more food, just as arable land, water and energy become scarcer and more expensive. If they fulfil their promise, GMOs offer a way out of this bind, providing higher yields even as they require less water, energy and fertiliser.

Early incarnations of the technology, such as Monsanto's Roundup Ready maize and soyabeans, were genetically engineered to be resistant to herbicides and pesticides, making it easier for farmers to control pests without damaging crops. The second generation will have further traits, such as drought resistance, “stacked” on top. Michael Mack, chief executive of Switzerland's Syngenta, reckons that farmers will pay extra for these new features.

Moore's law for maize

Indeed, farmers can expect ever-faster cycles of product upgrades, thinks David Fischhoff, a senior executive at Monsanto. He likens the industry's situation to the early days of the personal computer, now that the underlying technology is in place. Monsanto predicts that the yield from maize grown in America, which has doubled since 1970, can double again by 2030.

Mr Mack draws a similar analogy. “Like in the software industry,” he says, “intellectual-property rights give our technology value.” Farmers paying big licence fees to use the new technology would no doubt agree. But just as with software, GMOs suffer from piracy. In Argentina and China, the hostile stance toward intellectual-property rights has been blessed by the government itself.

The dirty little secret of the software industry, however, was that companies quietly tolerated some piracy on the basis that once customers went legal, they would probably stick with the products they were already using. The same may be happening with GMOs. Ask Syngenta's boss if he is worried about piracy, and he answers “yes and no”. As countries grow richer or embrace WTO rules, he says, their farmers will start paying. Argentina has already headed in that direction, he reckons, and last year his firm set up a joint venture with a Chinese biotechnology centre.

The most important reason to think that GMOs have a brighter future, however, comes not from any of the benefits they offer farmers, large though those will be. The big difference with the next generation of technology, argues Mr West of Pioneer Hi-Bred, is that it will also provide benefits to consumers. As an

example, he points to his firm's high-oleic soyabean oil, which it expects to have on the market in 2009. Through genetic manipulation, he claims, his firm's researchers have been able to improve soya oil so that it tastes better, is healthier and produces no trans-fats during cooking.

Could such an innovation even persuade sceptical Europeans? The lack of consumer benefits with first-generation GMOs made it easy for activists to whip up opposition. But if future products offer things consumers want, such as healthier food, and address problems that European regulators are worried about, such as obesity and climate change, then GMOs may yet have their day in Europe.

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French broadcasting

A fuzzy picture

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Reuters

Taking a stand against Sarkophonie

Plans to abolish advertising on public television are proving unpopular

THAT France's unions led a one-day broadcasting strike last week was scarcely a surprise. The French have grown used to non-stop piped music on the public airwaves during walk-outs. But the cause of the disgruntlement was unusual. The plan the left-leaning unions object to does not call for the privatisation of public television, but the abolition of advertising on state-owned channels. The unions are, in short, fighting to remain dependent on private-sector advertisers. Without them, they fear, jobs will have to go.

The new plan was unexpectedly proposed by President Nicolas Sarkozy last month. This week he set up a commission to examine the idea. In 2006 French public television got €834m ($1 billion) from advertising, or 30% of its total budget. Mr Sarkozy said this week that he wanted to liberate public broadcasters from the “tyranny of audience ratings” so they could focus instead on quality. Despite a reputation for cultural elitism, the French in fact excel at trashy TV: prime-time on both public television and TF1, the main commercial channel, is dominated by reality TV and confessional talk shows.

Mr Sarkozy seems to think that ending advertising will improve matters. “Public television must be ‘dangerous’ and audacious. It must take risks,” he said, arguing that the way to ensure this is to free it from the need to sell eyeballs to advertisers. But there are three objections to his plan.

First, experience in other countries shows that there is no automatic link between public finance and higher quality. The French seem to consider Britain's BBC, which has no advertising on its domestic service, as a model. Yet the most popular programme on the main BBC channel last year was a soap opera, and its prime-time schedule is packed with reality TV and talent contests. The reason is simple: if, as with the BBC, public television is financed largely by a licence fee or TV tax, it must still chase ratings in order to justify levying the tax. Since France also levies a licence fee, which provides 64% of the public-television budget, state broadcasters—with or without advertising—will be compelled to lure big audiences, and are likely to do so with low-brow, popular shows.

Second, if the beneficiaries of the ban on advertising are not necessarily the viewers, who gains? Unsurprisingly, France's commercial channels are delighted at the prospect of extra ad revenue coming their way. The day Mr Sarkozy announced his plan, TF1's share price jumped, albeit temporarily. TF1's biggest shareholder is Bouygues, a conglomerate, whose boss, Martin Bouygues, just happens to be a close friend of Mr Sarkozy's and godfather to one of his sons. Another bigwig who will benefit is Vincent Bolloré, a media magnate who launched a television channel, Direct 8, in 2005. Mr Sarkozy has borrowed

Mr Bolloré's yacht and private jet for two holidays since his election last May. His opponents grumble that his new plan will mainly benefit his friends.

Third, Mr Sarkozy has promised public broadcasters that he will replace every euro of lost ad revenue with public money. Exactly how is unclear, but he has said that, as well as taxing the extra ad revenues won by the private channels, he may introduce an “infinitesimal” tax on mobile phones and internet access. Politically, this may be appealing, but economically it would be a mistake. Given the sluggish state of the economy and the relative lack of high-tech investment, a tax on all things digital would be daft. As one French boss puts it: “It would be shooting the French economy in the foot.”

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Business in China

Inevitable collision

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From The Economist print edition

A loss at the WTO over car parts signals a tough new era for Chinese companies

Get article background

GIVEN the time, expense and complexity involved, bringing disputes before the World Trade Organisation (WTO) is often said to be a fruitless task, regardless of the merits of the case, and regardless of the verdict. Viewed narrowly, that pretty much sums up China's unprecedented loss before the WTO on February 13th, over its import restrictions on car parts. Once appeals and other delays are done with, the firms in Canada, America and Europe, on whose behalf the case was brought, may have been too battered by their vibrant Chinese rivals to benefit. But on a symbolic and practical level, the case could be a turning-point for many industries in China: the start of a new era in which they are attacked by litigation.

The reason car parts came first was that the case was particularly strong and the number of people affected was particularly large—at least double the total employed by the more visible brand-name carmakers. Among the commitments made by China in 2001 when it joined the WTO was an agreement to open up to foreign suppliers. But in 2006 it increased the tariff on car parts from 10% to 25% (the same as the rate charged on imported foreign-made vehicles) if the parts comprised more than 60% of the finished car's value.

This made it much harder for foreign firms to compete with China's own low-cost suppliers. Imports have since grown at only a fraction of the rate of the domestic industry, and many foreign partsmakers have responded by setting up shop in China. But this means job losses back home, and is bitterly resented in America, Canada and parts of Europe.

Whether the WTO decision will provide much relief is questionable. An appeal seems inevitable. Meanwhile the Chinese industry is growing, and big foreign suppliers feel that they need to establish their own operations in China now in order to remain competitive, rather than wait for a political settlement. The tariffs are expected to go in a few years anyway, once China's carmakers start building fancier vehicles that need sophisticated foreign technology, says Rodger Baker of Stratfor.com, a research firm.

The decision will still resonate, however. Within China, it may mean that the bureaucrats in charge of implementing WTO commitments will find it easier to get things done. The WTO decision also draws attention to China's increasingly fractious trade relationships, which are the source of a growing number of anti-dumping actions, including one targeting car tyres, which was filed on February 8th. Most importantly, it shows China's potential vulnerability before the WTO. “Victory in this case will whet the appetite of foreign competitors and their governments to bring more,” says Lester Ross, a lawyer at WilmerHale, based in Beijing.

That is because the Chinese government has not just intervened on behalf of partsmakers. It has erected barriers to protect many other industries, for example by imposing elaborate registration and certification requirements for imported food, cosmetics, chemicals and pharmaceuticals. These do not apply to local firms, which is just the kind of preferential treatment that could fall foul of WTO rules.

China was eager to join the WTO on the basis that membership of a large, multilateral organisation would enhance its ability to compete with other big countries. But its odd, state-dominated economy makes it particularly sensitive to verdicts of this kind. This month's result may not help the car-parts firms in America, Canada and Europe, but it is good news for foreign firms in other protected industries.

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Wal-Mart

Always low prices

Feb 21st 2008 | NEW YORK
From The Economist print edition

As the American economy turns down, Wal-Mart is looking up

“WE know the economy will be a critical factor this year,” said Lee Scott, the boss of Wal-Mart, as the world's biggest retailer released its quarterly results on February 19th. Wal-Mart's prospects do indeed reflect those of the economy at large—but not in the way you might expect. With America tipping towards recession, Wal-Mart is doing much better than in the past couple of years when the economy was booming. Sales increased by 8.3% compared with the same period last year, to a record $106.3 billion. Mr Scott concluded that in a volatile economy Wal-Mart was “well positioned to succeed”.

The secret of Wal-Mart's meteoric rise over the past five decades has been its obsession with low prices. It got into trouble in 2005-07 when it focused less on “always low prices” (its longstanding motto) and more on expansion. Sales growth, productivity and profits fell, while Target and other upmarket rivals snatched market share. Wal-Mart, the biggest private employer, became a favourite public whipping boy because of its health-care, gender and labour policies. In February last year Mr Scott's job was said to be on the line.

“We used to be quite negative on the stock, because the company threw too much money at new stores,” says Gregory Melich, a retail analyst at Morgan Stanley, an investment bank. Wal-Mart has over 7,100 stores worldwide and more than 4,000 in America. Last summer Mr Melich upgraded his verdict on Wal-Mart, because he saw a “big strategic shift”: it reduced its capital expenditure to $14 billion for the fiscal year, from $18 billion the year before, slowing its expansion to spruce up existing shops instead. It opened far fewer new shops in January than in previous years.

The economic downturn is another boost for the recovery of the Bentonville behemoth, as cost-conscious consumers defect (or return) to the cheapest of the big retailers. Prices for oil and many foods are at record highs, but Wal-Mart can pass some inflation on to shoppers without losing its low-price leadership. And it is in the right line of business in hard times. Its biggest strength is grocery sales, which are not slowing down, and are unlikely to, since they are essential purchases.

Other retailers are in a far harder spot. Home Depot, America's number two retailer, is in its sixth quarter of falling sales. The home-improvement market has been badly hit by the subprime-mortgage meltdown. Fashion retailers are in trouble, since most people think they can put off buying clothes. Ann Taylor, a fashion retailer, says it will close 117 of its 921 stores over the next three years.

Even so, analysts predict that overall, retailing will escape a recession this year. They forecast 3% growth (excluding cars and petrol) compared with 4% last year. Retailers with international reach gain from the weak dollar. Wal-Mart's operations abroad, which represent one-quarter of sales, grew by 18.8% in the past three months. The American government's fiscal-stimulus package of up to $168 billion will give retailers an extra $15 billion or so, and Wal-Mart is likely to get the lion's share. In tune with the times, the firm with always low prices changed its slogan last year to a new variation on the theme: “Save money. Live better.”

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Business in America

Where there's muck

Feb 21st 2008 | VERNON, CALIFORNIA
From The Economist print edition

The city of Vernon highlights the tenacity of manufacturing in California

YOU can usually tell which way the wind is blowing in Vernon. One smell emanates from Farmer John's, a large slaughterhouse and meat-packing plant. Another more acrid one comes from Baker Commodities, where cooking fat and animal carcasses are rendered. Such enterprises seem increasingly out of place just across Interstate 10 from downtown Los Angeles, with its ever-multiplying luxury flats. But Jim Andreoli, who runs the rendering plant, has no plans to move. “There is nowhere else for us to go,” he says.

For the past 102 years Vernon has fought what its administrator, Eric Plesch, wryly calls a “losing battle” for industry in the old-fashioned sense of the word. Just five square miles (13 square kilometres) in size, the city is packed with metal-stampers, plastic-moulders and sausage factories. Some 45,000 people commute there every day, many from south-central Los Angeles. Plans are afoot to add a server farm and a bleach factory. Local officials are delighted with the two new prospects for the same reason that most cities would frown on them: they will use enormous amounts of electricity.

Vernon is part of a patchwork of small cities in the metropolis that remain independent because Los Angeles lacks the power to swallow them. Three others are also dedicated to industry, though not with the same single-mindedness. Far from fighting a losing battle, they are a large part of the reason southern California has remained a centre of industry. Despite its glitzy image, metropolitan Los Angeles sustains more manufacturing jobs than the entire state of Michigan.

One reason industry holds on is that doing business in Vernon is cheap. Larry Kosmont, an independent analyst, reckons most heavy industry would be better off there than elsewhere in Los Angeles, or even in Houston or Las Vegas. Taxes are low, and would be much lower were it not for the state. Vernon has its own gas-fired power station and sells electricity for about 20% less than elsewhere in the area. Power is a big source of profits, which is why the city is keen to lure energy-hungry firms. It wants to start building a big new power station later this year.

What most strikes business owners is the efficiency of the place. Ben Swett of Windowbox.com, a gardening-supply company, says Vernon's bureaucrats spend just days, or even hours, on a permit application that would take months in the city of Los Angeles. Vernon's health and fire inspectors, though finicky, are a small team, which means businesses routinely deal with the same people. The police force keeps crime, and thus insurance rates, to a minimum. Brett Willberg, who runs an ice factory, says he has never bothered to fix the electric gate in front of his operation, which does not close.

Vernon caters so diligently to the needs of businesses because it does not have to balance their demands with those of residents. Only about 90 people live in Vernon, many of them cops and fire-fighters. Most rent their homes from the city for a pittance—a one-bedroom flat costs $147 per month. They are the city's electorate and, in theory, the pool from which mayors and local politicians are drawn.

It does not sound like a recipe for a functioning democracy, because it isn't. The mayor has held power for 34 years. Contested elections are almost unknown. The last was in 2006, when three outsiders moved into a house just before the deadline and petitioned to stand for city offices. Their electricity was abruptly cut off and their home declared unfit for habitation. The outsiders got ten votes out of 68 cast. That was a surprise: they had expected just eight. Bill Schneider of the Chamber of Commerce says the shenanigans during the election worried him—because of the risk that another regime might take over. “What outsiders miss is that the damn place works well,” says Lonnie Kane, who runs a clothing firm with his wife, Karen.

Most of Vernon's companies find it useful to be so close to the centre of Los Angeles. The rendering plants pick up cooking fat from local fast-food joints and meat from supermarkets. Mr Willberg keeps

costs down by being close to the delis and liquor shops that are big users of ice. Eric Bender, who is about to submit plans for the server farm, will not have to lay much fibre-optic cable. Mr Kane's clothing firm needs to be near designers.

Many cities used to have places like Vernon. Think of Manchester's warehouses or Manhattan's meat-packing district, now converted into clubs and trendy lofts. This is a shame. Smelly, noisy businesses sustain a wider range of jobs than the cafés and cultural centres that most cities try so hard to lure. And all the businesses that exist in Vernon have to exist somewhere. None of which, admittedly, is much comfort when the wind changes.

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Solar energy

The power of concentration

Feb 21st 2008
From The Economist print edition

A new type of power plant harnesses the sun—and taxpayers

AFP

Solar power, but not as we know it

ON FEBRUARY 22nd, at an event featuring film stars, astronauts and technology gurus, Acciona, a Spanish conglomerate, is due to inaugurate a new power plant a few miles from Las Vegas. In fact, the plant has been running since last June. But the technology it uses, known as “concentrating solar power” (CSP), is hot right now, as the Hollywood luminaries might put it.

Acciona's new plant, called “Nevada Solar One”, can generate up to 64 megawatts (MW)—enough, it says, to power more than 14,000 homes. The Solar Energy Industries Association (SEIA) says that more CSP plants, with a total capacity of 4,000MW, are in the pipeline and have signed contracts to sell their future output. An 11MW plant opened in Spain last year (pictured). New Energy Finance, a research firm, estimates that 2,000MW of capacity is in the works in Europe.

As their name suggests, CSP plants generate electricity by concentrating the sun's rays, usually to boil water. The resulting steam drives turbines similar to those found at power plants that run on coal or natural gas. There are several different designs. The Nevada plant uses long curved mirrors, called parabolic troughs, to focus light on a tube of fluid running just above them. The Spanish plant uses a forest of smaller mirrors to focus light on a tower in their midst. Other concepts involve long flat mirrors and devices resembling satellite dishes.

Solar power, of course, does not produce climate-changing greenhouse gases. But it also excites utilities because it generates the most power just when it is needed: on hot, sunny days when people turn on air conditioners. And CSP provides a way around the main drawbacks of solar power from photovoltaic cells. Unlike them, it does not involve expensive silicon wafers. And some designs provide power round the clock, not just when the sun is shining, by storing energy in the form of molten salt.

Even so, CSP is still not as cheap as coal- or gas-fired plants. America's CSP boom is driven by state laws requiring utilities to generate a certain share of their power from renewable sources, and by generous federal tax breaks, which offset as much as 45% of development costs, according to SEIA. In Spain, meanwhile, utilities must pay an extra €0.25 ($0.37) per kilowatt-hour on top of the market price for power from CSP.

America's tax breaks are due to run out at the end of the year, and without them, says Rhone Resch of SEIA, no more CSP plants will be built there. But in the long run, he argues, costs should come down. And if fossil-fuel prices continue to increase and American power-plants have to start paying for their greenhouse-gas emissions, CSP might just achieve “grid parity” with the wholesale power price. That really would be an excuse for a party.

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Face value

Mr High-speed Europe

Feb 21st 2008
From The Economist print edition

Reuters

Guillaume Pepy, France's railway boss, is revitalising Europe's train network

FROM April, passengers on an evening express train from Paris to Biarritz, Nice or Marseille will be able to drink and dance the night away rather than just slumber at 300kph (190mph). Special “iDnight” carriages will be hooked up; there may even be onboard gambling. Meanwhile on the double-decker versions of TGVs (*trains à grande vitesse*) now on many routes, passengers will be able to choose between “Zen” (quiet) and “Zap” (buzzing) carriages. Ideas like this bubbled up when Guillaume Pepy, chief executive of SNCF, France's state-but-not-staid railway, asked his executives to imagine what competitors might do to lure customers away from Europe's sexiest trains, once the tracks open up to competition in two years. Mr Pepy hopes such brio will also land him the chairman's job any day now, otherwise he is widely expected to go off and apply his talents elsewhere.

Typical French bosses are cool, sophisticated products of France's elite universities. To be sure, Mr Pepy is a graduate of the Ecole Nationale d'Administration, and started out as an elite civil servant (a tax judge, no less) but he ran away to join the railway just as TGVs were making it interesting. They were fast and prestigious; Mr Pepy made them consistently profitable, too, and is now extending their reach into Germany, Belgium and Britain. He is chairman of Eurostar and founder of the Railteam alliance of eight railways that plans to launch a seamless trans-European network at the end of the year, with online bookings and co-ordinated timetables. Next, Mr Pepy is preparing for 2010, when airlines and private train-operators such as Italy's new NTV group will be allowed onto Europe's high-speed rail network.

The French take pride in their TGVs, along with fine wines and haute couture. But the high-speed trains made barely any profit for their first 16 years. That changed in 1997 when Mr Pepy took charge, introducing a dose of modern marketing and a yield-management system from American Airlines to fill seats and take on the low-cost airlines. It worked: sales and profits immediately started to rise. Now 800 TGV services run each day, carrying over 200m passengers a year, and 80% of seats are occupied. “We are the French low-cost carrier,” Mr Pepy says. A ticket from Paris to Marseille now costs as little as €22 ($32).

TGV accounts for only one-third of SNCF revenues, but its fat margins lifted the railway to a profit of €695m in 2006, after fees paid to RFF, the track owner, are taken into account. How do the TGVs make so much money when so many railways struggle? Mr Pepy points out that a double-decker TGV can make two round trips between Paris and the south or west of France every day, carrying about a thousand passengers on each leg. The combination of size and speed brings economies of scale, boosted further by

the route through Strasbourg to Germany opened last summer, and the new high-speed Eurostar link to London.

French railways stand out in Europe not only because they manage to turn a profit, but because they remain solidly in the public sector while doing so. Instead of conflict between politicians and managers, there is a clear division of responsibility. French towns and regions now pay SNCF to run less glamorous local services or even extend TGV services on slower lines into the depths of Brittany. Since the regions pay, they, rather than the railway, decide where and when the local trains run. This keeps the politicians off the backs of Mr Pepy and Anne-Marie Idrac, his chairman. It also keeps politics out of the railway, since no party would dream of privatising SNCF—sparing France the agonies that Britain and Germany have faced over privatisation.

Mr Pepy is an unlikely man to be standing on the footplate. In Germany, where Deutsche Bahn is roaring ahead with its express trains and its global freight and logistics business, many managers came from Lufthansa, bringing airline techniques. But Mr Pepy went straight from the civil service to SNCF, where he was initially put in charge of safety and labour relations. “Both were terrible at the time,” he recalls. But a subsequent stint in the 1990s at the head of the Sofres, a market-research and polling company, introduced him to marketing. His new knowledge helped him transform the TGV service when he returned to SNCF in 1997, and he was rewarded with the chief executive's job in 2003. He then set about dismantling the fortress mentality that had made French railways as famous for labour stoppages as for speed. Since 1955 the government had tried to reform the train-drivers' contracts which let them retire at 50 with a full pension. In 1995 President Jacques Chirac backed down after a three-week strike, a critical defeat in his attempt to reform the economy. But last autumn Mr Pepy, with the backing of the government, got the unions to do a deal after an eight-day strike.

Circle the wagons

The TGVs are thriving, Mr Pepy is ready for an influx of new competitors and huge sums are being spent to upgrade the dowdy old commuter trains that serve Paris and other French cities. But not everything at SNCF is steaming ahead. Its freight business is a chronic lossmaker, hobbled by rigid labour practices that mean it cannot compete with rivals such as EWS (from Britain) and Veolia (part of a French conglomerate) which are already operating in France. EWS has been bought by Deutsche Bahn, and Mr Pepy admits that “everybody is talking to everybody” about further freight consolidation.

Big customers such as ArcelorMittal (steel) or Danone (food products) want fast, pan-European freight services that do not stop at borders. Mr Pepy dreams of new rail links that bypass city centres and allow freight trains to roll through the night, offering a greener alternative to long-distance lorries. But that would require investment that the French government can ill afford—and shaking up freight would threaten jobs, risking another conflict with the unions. He has transformed passenger services, but it will not be easy for Mr Pepy to pull off the same trick again.

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Hollywood and the internet

Coming soon

Feb 21st 2008
From The Economist print edition

The internet could be a boon for Hollywood—but only if it can conquer its fears

TO SEE what the future of film distribution might look like, go to a website called ZML.com. It offers 1,700 films for download to personal computers, iPods or other hand-held devices, or to burn to DVD. It is inviting and easy to use, with detailed descriptions of each movie, editors' picks, customer reviews and screen stills. And the prices are reasonable: “Atonement”, for instance, costs $2.99.

There is one small catch: ZML.com is a pirate site. Hollywood's movie studios, which are used to dealing with scruffier crews like Pirate Bay, a Swedish outfit, are aghast at how professional the newcomer is. “It looks like a fabulous legal website,” says one studio executive.

The existence of ZML.com illustrates why Hollywood is in two minds about the web. On the one hand, the internet has brought a potent threat: pirates are plundering films and carrying off booty that rightfully belongs to the studios. Online piracy costs Hollywood less than the physical variety, ripping off DVDs, but the gap is closing. “We are more concerned about internet piracy than physical piracy, because controlling it is harder,” says Ron Wheeler, head of anti-piracy efforts at Fox Entertainment Group. Some in Hollywood believe that internet theft could even be the death of America's film industry.

On the other hand, the internet offers Hollywood a great opportunity—which it has so far been slow to exploit. There is every reason to think that people will want online access to films, just as they do for music, newspapers, television and radio. ZML.com is proving that people will pay to download films to see at home when it suits them. And once people can buy or rent films on demand, the chances are that they will watch more of them.

The web is already making its presence felt in the heart of Tinseltown: this year's Oscars extravaganza, which is due to take place on February 24th, nearly fell victim to a strike by writers over pay for the distribution of their work on the internet. But for the time being Hollywood is mostly stuck in the physical world. Every year it sends thousands of heavy, expensive reels of film to cinemas by road. Only in the past year or so has it started an effort to send out some across the ether as ones and zeros. The DVD is a digital format, to be sure, but it comes in shrink-wrapped plastic.

Some studios are enthusiastic about the internet. “In 2008 we will move full speed ahead online,” says Thomas Lesinski, president of digital entertainment at Paramount Pictures in Los Angeles. “It's the great hope for new revenue for the movie business.” But the industry has by and large been slow: studios have only tentatively backed legal online film-download services. Television, by contrast, has been much faster to embrace the internet.

On the buses

The choice of what is legally available online today is patchy. For instance, London buses are carrying ads for FilmOn.com, a new download service. It promises “tons and tons of great movies”, but you will not find “Mulva 2—Kill Teen Ape!” near the top of many people's lists. The internet has lots of legal sites like this, which promise thousands of top-class titles but in truth resemble the worst shelves of a bad video-rental store. ZML.com has a far better collection than most legitimate services do.

Another legal site, MovieFlix, based in Los Angeles, makes its money from independent films, student movies, straight-to-video titles and other eclectic fare. Its founders, Opher Mizrahi and Robert Moskovits, stay away from Hollywood studios because of their high fees. MovieFlix, which had revenues of $1.2m last year, is rare among download sites: it turns a profit. “We are the cockroaches of this space,” says Mr Mizrahi, “and we are survivors.”

Many better-funded services have fared far worse. Movielink, which the studios themselves set up in 2001, with about $150m of start-up capital, was sold last August to Blockbuster, a video-rental chain, reportedly for less than $20m. CinemaNow, which counts Microsoft and Cisco Systems among its investors, started offering movies online in 1999 and is not yet making a profit, to the surprise of its chief executive, Curt Marvis. Back then, he says, everyone thought that selling films online would be a huge business by now.

Nor are the studios making much money online. They have dozens of deals with internet services around the world. Warner Bros, for instance, supplies small selections of its films to 38 separate digital-distribution services, according to Screen Digest, a research firm in London. In 2006, estimates Screen Digest, online distribution of movies generated a total of $58m in America and western Europe. Screen Digest expects this to rise to $1.2 billion by 2011. But that is still below 5% of its forecast for total home-entertainment revenue.

Consumer-electronics firms are longing to supply Hollywood films. According to Screen Digest, online viewing is most likely to take off on services based on their devices. So far, people have been most interested in buying films for gadgets such as Apple's iPod or Microsoft's Xbox 360. Apple's iTunes has captured almost 80% of the download-to-own market; the Xbox has won more than 70% of online rentals.

At the International Consumer Electronics Show (CES) in Las Vegas in January, everyone was waiting for Apple to announce that iTunes would start selling new movies from all six leading studios. Hitherto, only Disney had granted Apple access to new releases (Apple's chief executive, Steve Jobs, sits on Disney's board); a couple of other studios were giving it older titles. In the event, Apple's deal was disappointing: it got the go-ahead from all the studios only to rent their films, not to sell them. According to a person familiar with the negotiations, however, this was because of the Hollywood writers' strike over new media. Now the studios are waiting to see whether actors walk out over the same issue. When the labour troubles are past, Apple is likely to get a proper download-to-own deal with all six studios. For Hollywood, this would be a big step towards the internet.

The colour of money

There are two broad reasons for Hollywood's tardiness. The main one is the industry's aversion to making big changes to its business model. In part this is because it takes so much risk in its day-to-day operations. “Every weekend, we sit on pins and needles watching to see if our films will flop,” explains a studio executive, “and that doesn't encourage risk-taking in the business as a whole.” There is a less defensible explanation too: “Hollywood's value system is not necessarily about growth,” says Dan Jansen, who runs the Boston Consulting Group's media practice. “It's about recognition for films.”

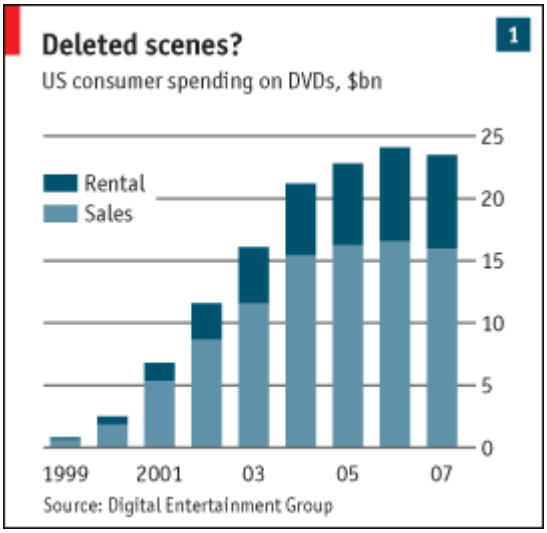
For the moment, most people are still happy with DVDs, so the studios have had little incentive to switch to an unproven new format. The DVD business is huge, bringing in $23.4 billion in America last year, against $9.6 billion from the box office. The studios are terrified of damaging that source of revenue. In 2006, when Disney made a deal with Apple to sell movies via iTunes, Wal-Mart, America's biggest retailer, reportedly threatened to retaliate: the internet, after all, bypasses it. Wal-Mart accounts for about 40% of DVD sales in the United States and if it sharply cut shelf-space for DVDs, the lost sales would far outweigh new digital sales in the near term. At the end of last year Wal-Mart shut its ten-month-old movie-download site. Now that it no longer has a foot in the internet camp, studios expect it

to take a harder line against any further efforts they may make to favour online distribution.

Not everyone agrees, however. Wal-Mart and other big retailers rely heavily on DVDs to bring higher-income people into their stores, says a studio executive. “So they don't have a leg to stand on threatening to pull shelf-space.” For this reason, he believes that Hollywood should be able to cultivate online revenues without greatly disrupting its existing businesses.

In any case, there are now signs that the DVD boom has come to an end—which should also encourage the studios to worry less about Wal-Mart and to move faster online. After its growth slowed in 2005 and 2006, spending on DVDs fell by 3% in 2007 (see chart 1). Some in the industry are pinning their hopes on fancier, “high-definition” discs—another physical format—rather than on the web. But so far, sales of such discs have been minuscule—largely because of a war between two formats, HD DVD and Blu-ray. Although the war ended this week, when Toshiba said it would abandon HD DVD, high-definition discs are unlikely to bring growth back to the home-entertainment business.

Indeed, Hollywood's desire to preserve its existing business rather than embrace a new one echoes its misgivings a few years ago about the DVD itself. In 1997, when the new format was about to be born, three studios, Paramount, Disney and Twentieth Century Fox, came out against it, remembers Warren Lieberfarb, who is widely credited with having fathered the product as it is today. They were worried that selling DVDs for $18 apiece would cannibalise their sales of video cassettes to rental stores for $65 each. None of the three studios is proud of that episode now.



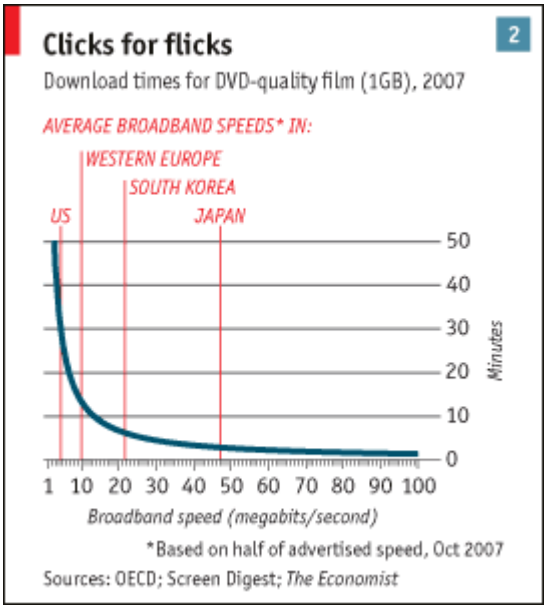
Moreover, as well as boosting sales overall, the internet will make it easier for the studios to make money from their libraries—bricks-and-mortar retailers, after all, have limited shelf-space, and mostly stock new releases. Digital sales yield a higher profit margin too. Virtual distribution does away with manufacturing, packaging, transport and inventory costs. At the moment, the studios get $18 per film from a Wal-Mart or a Best Buy and about $16 for a digital sale, but because of the lower costs they make about $3 more on each film when sold electronically.

A bigger risk than angering Wal-Mart is that Hollywood will be undone by internet pirates. Imaginative, reasonably priced legal products are the best antidote to piracy: anti-piracy heads at the studios, indeed, clamour for well stocked, convenient movie-downloading services. Fox's Mr Wheeler says that content owners should offer people “ubiquitous access to our products online at reasonable prices”. Mr Wheeler also hopes that internet-service providers can be drafted into the fight. In November France's president, Nicolas Sarkozy, backed a proposal to require ISPs to detect and cut off conspicuous pirates. Britain's government is said to be considering a similar law.

The second reason for Hollywood's sluggishness is that the studios and the consumer-electronics industry have not overcome three technological hurdles. Downloading a film still takes a long time—in America, about 30-40 minutes on average (see chart 2). Movies in high-definition format would take about four times that. But broadband speeds are increasing all the time. In Japan and South Korea it now takes between five and ten minutes to download a film in standard definition.

Another obstacle is that most people want to watch films on television, not on personal computers—especially if they have wide, “home-theatre” TV screens. Products connecting PCs and televisions have been available for years but have not caught on, because they are hard to install and operate. That is changing. Apple has just overhauled its linking gadget, Apple TV, to make it easier to use. At the CES in Las Vegas, says Alan Bell, Paramount's chief technology officer, new televisions and set-top boxes that connect directly to the internet were on show, “so the PC is not the bottleneck in getting digital content from internet services to the TV screen that people saw a year ago.”

The last hurdle, and perhaps the highest, is the lack of common standards among websites and devices. “Imagine if you went to Wal-Mart to buy a new DVD player and then found that your DVDs from Best Buy didn't work on it,” says Mitch Singer, chief technology officer of Sony Pictures Entertainment. Movies on the internet, he says, is “a format war on steroids”. Each download store sells different usage rights. Hollywood is trying to do something about this. Late last year a group of studios, retailers and consumer-electronics firms met to discuss an idea of Mr Singer's for a standardised electronic movie product called Open Market. But the talks are at an early stage, and it will be tricky to get companies such as Apple and Microsoft to agree to common standards.



Hollywood's dealings with the consumer-gadget companies also betray its habitual caution. The studios fear that Apple could become the Wal-Mart of the internet—a giant with power to push them around, continually pressing prices down. Maintaining pricing online is a particular worry. “People think that if it's online it should be free,” says one studio head. One answer to pricing pressure online, though not a complete one, would be to experiment with putting advertisements around films. Last year Paramount gave a selection of films to a service called Joost that streams them free, supported by advertising. Movies are doing very well on the service, says Mr Lesinski. Paramount plans to conduct more online experiments in 2008, he says. The lion's share of its library and all its new releases will be on the internet within a year or two.

Short of selling films on it, Hollywood certainly knows how to use the internet to its advantage. Its use of viral online marketing is one of the most sophisticated of any industry. Jeff Berg, chairman and chief executive of ICM, a talent agency, says that about 8% of the total marketing spending on films goes to the internet; in five years' time, the web will take 20%. Paramount's “Cloverfield”, a low-budget monster movie shot as if by an amateur with a camcorder, earned $40m in its opening weekend in American cinemas last month, crushing the competition. It built its audience on the internet: a mysterious trailer for another, unidentified movie led to a website and started an online treasure-hunt for more clues. Popular movie websites such as aintitcool.com buzzed for months about the mystery film.

How the web was won

Creatively, too, Hollywood is harnessing the internet. Studios are using it to find global pockets of interest. “If there's 1m people around the world who are interested in ice-fishing,” says Jeremy Zimmer, co-founder of United Talent Agency, “we can make a movie for them.” Studios are using their customers' opinions to shape their films. “Snakes on a Plane”, for instance, started off in development as a horror film. As the project got attention online its maker, New Line Cinema, listened, and changed the plot to be more comic in tone. Blowtorch, a young media company making video content for 18- to 24-year-olds, is pushing this further. It will allow audiences to influence its movies via the web. They will be invited to vote on elements of a film's soundtrack, an actor's wardrobe, or even character development.

Don't lose it in your popcorn

ICM's boss believes that the internet will lower barriers to entry for new film-makers. “Sites will spring up specialising in independent films and short movies,” says Mr Berg, “and these will be showcases, similar to film festivals.” Jaman.com, a download service for independent films from around the world, is a good example. The makers of “Indoctrinate-U”, an independent film about a lack of free speech at American universities, have used the internet to build an audience. The movie's website invites people to sign up with zip codes; if enough do, local screenings are arranged. United Talent Agency has set up a special internet unit, UTA Online, to find and develop new talent. The new unit encourages people to get in touch—unheard of in the original “don't call us” business.

In the long term, many people expect that the internet could undermine Hollywood's system of exclusive “windows”. Cinemas get a film to themselves for a period of weeks, then it goes to DVD, then to video-on-demand and online services, then pay-cable television, and so on. And many films are still released in different countries at different times, usually starting in America. The system is a gift to pirates. But the studios are wedded to it, especially the cinema window.

The internet creates immediate global awareness of movies, says Reed Hastings, chief executive of Netflix, a DVD rental-by-mail company, so the studios are increasingly choosing to release films at the same time everywhere. They have already shortened their windows, he says, and that could be a step towards getting rid of them. As people buy home-theatre systems and the convenience of the internet makes it even harder to get people out of their homes, the cinema window will come under ever greater pressure.

It will doubtless take Hollywood a few more years to work out how to deliver films over the internet. Meanwhile, studios and retailers are poised to introduce movie-download kiosks, using flash memory. Several companies, such as MOD Systems, of Los Angeles, have cut download times to a few minutes; Ireland's Porto Media claims a time of 17 seconds. The idea is to put kiosks in such places as shops, airports and petrol stations. Using Porto Media's system, films are downloaded onto a tiny device (pictured) which plugs into dock attached to a television. Kiosks could hold more titles than physical video shops and would never be out of stock. Twentieth Century Fox is looking at several competing kiosks, says Mike Dunn, head of the studio's home-entertainment unit. It will test them this year.

“The flash-memory-enabled kiosk is an interim solution which overcomes many of the weaknesses of the present model and the current deficiencies of the internet,” says Mr Lieberfarb, who is on the board of MOD Systems. Customers will get used to downloading films and transferring them between devices, which will prepare them for proper online distribution. Kiosks will make money for retailers too, so that they could help the studios keep Wal-Mart and others sweet. That is the kind of careful step forward that even Hollywood can dare to take.

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Bond insurers and the markets

Splitting headaches

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Illustration by Satoshi Kambayashi

The fears over the municipal-bond market in America look overdone. For the moment, the government should resist the urge to intervene

"WE WERE not designed or structured to be the most important company in the entire financial system," said Jay Brown on February 19th as he returned to MBIA, charged with steadying the company he had run from 1999 to 2004. You may think otherwise, given the markets' fevered concern over the "monoline" bond insurers. Thanks to unwise forays into mortgage-backed securities, an industry that a year ago was basking in profitable obscurity now stands accused of endangering large chunks of the financial system, including Wall Street banks and the huge market for municipal bonds. With rating agencies preparing to downgrade them to levels that could destroy their business, and regulators pushing for bail-outs or break-ups, the monolines' moment of truth has arrived. For anyone linked to the $2.4 trillion of securities they have guaranteed, it is nail-biting stuff.

The sense of urgency has increased since Eric Dinallo, the insurance regulator for New York state, stepped up pressure on banks to offer help. At a congressional hearing on February 14th, Eliot Spitzer, New York's governor, gave the insurers a few days to strike rescue deals or face government intervention—meaning, probably, forced break-up into good books (the original "monoline" business of backing municipal bonds) and bad ones (collateralised-debt obligations and the like).

Though no agreement had been reached as *The Economist* went to press, the industry had begun to embrace radical change. FGIC, the fourth-largest monoline, filed an application to split itself in two. Ambac, the second-largest, began work on plans to raise $2 billion in capital as a possible prelude to a break-up. And the rehiring of Mr Brown was seen as a sign that MBIA, too, is thinking the unthinkable.

Some see this as a negotiating ploy. The monolines know that, by threatening to break apart, they may force Wall Street banks to stump up the cash to keep them whole. The banks fear that stand-alone structured-product insurers, cut off from the municipal bit, could not pay all of their claims. This would drag down the value of securities the monolines have guaranteed and increase the banks' write-downs.

Some also worry that these weakened monolines would be less able to honour credit-default swaps (CDS) they had sold to the banks. Meanwhile, those using CDS to bet on defaults of the monolines themselves are not sure which part of the insurer would be covered in the contract. Years of litigation could follow a break-up.

Calculating the banks' potential monoline-related losses is more art than science, and estimates range from $7 billion to ten times that. A new report by Moody's puts the CDS exposure alone at $120 billion for a group of 20 large banks. In the event of monoline downgrades, the banks may have to raise their

counterparty reserves by a combined $7 billion-10 billion, reckons the rating agency, rising to $20 billion-30 billion if the value of hedged securities falls far. Spread around perhaps two dozen lenders, that number, though big, does not look terrifying.

The regulator and governor are shedding no tears over lenders' losses. Their primary concern is the $2.6 trillion, tax-exempt municipal-bond market, used by cities, universities and the like to raise long-term funds, much of it from individuals. Were the monolines to lose their top-notch ratings, they fear, many issuers could struggle to meet higher funding costs.

Municipal borrowers are already being affected by the lack of confidence in the insurers. Overall issuance was 38% lower in January than the year before—though other factors, such as the economic slowdown, were also to blame.

Worse, two little-noticed but important bits of the market have imploded this month, and there are fears for a third, known as closed-end municipal-bond funds. In the first, vehicles sponsored by banks raise short-term money by issuing “tender option bonds” (TOBs), then use it to invest in longer-term municipal bonds and the like. Buyers have fled these programmes, in part because of worries over muni-bond insurance. The banks behind TOBs are having to buy up the unsold bonds, further straining their balance sheets—though losses should be manageable as the bonds are high-quality.

Problems in “auction-rate” securities are causing even more alarm. In this $330 billion market, long-term bonds are, in effect, transformed into short-term ones by having the interest rate reset in auctions every week or month. The allure for issuers, including hundreds of municipal bodies, is lower interest rates than typical long-term bonds, and the ease of paying down debt if they build up a surplus, by simply taking part in the auction themselves.

This month, however, dozens of auctions have failed as investors have questioned the quality of the assets on offer. Tens of billions of dollars of bonds went unsold last week. Dealers, such as Citigroup and Goldman Sachs, have backed away from soaking up unwanted paper. This has come as a shock to corporate treasurers at firms like Bristol Myers Squibb and US Airways, who piled into auction-rate debt assuming it to be safe.

Because the interest rate automatically clicks up if the auction is a dud, hospitals, museums, universities and ports have suddenly found their debt-service bills rising sharply. New York state entities' weekly borrowing costs have climbed by more than $2m, for instance. Some rates soared to 20%—though later they fell back to a still high 8%. Issuers are scrambling to refinance into proper long-term bonds, or asking banks for letters of credit. The Treasury has even offered to make it easier for issuers to convert to other types of debt.

Auction-rate bonds may never recover. That would not be catastrophic. They are extra gears, engineered by over-achieving bankers, rather than essential market cogs. May the same be true of bond insurance? The crisis shows it is only as good as its underwriters, and they have proved inept. Moreover, muni bonds are rated using tougher criteria than corporate bonds. If they were not, most would be almost AAA, reducing the need for insurance.

The more pressing question is whether the government should intervene in any other way than encouraging talks. There are grounds for scepticism. As painful as the disruption in municipal markets is, it looks temporary. Rates fell this week, and high-quality issuers were able to raise finance in municipal-bond markets.

Moreover, there is no supply crisis in the monoline business: Warren Buffett has entered the market (even offering to take on rivals' municipal businesses) and some less-troubled monolines, such as FSA, are grabbing market share. The monolines' woes are already largely priced in. There is scant evidence that leaving their fate to market forces, though it may be painful, would bring down Wall Street banks. If the banks see the danger growing, they will have even more incentive to find the money to help.

On top of which, a state-mandated break-up could trigger a wave of lawsuits, further eroding trust in the system. Eager as they are to be seen doing the right thing, Messrs Dinallo and Spitzer should wait to see graver danger than this before they meddle in private contracts.

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Buttonwood

Beyond reason

Feb 21st 2008
From The Economist print edition

The strange existence of market anomalies

STOCKMARKETS are efficient machines, populated by rational investors seeking to make the best returns that they can. As evidence, look at the difficulty the average fund manager faces in trying to beat the market.

But if that is so, how do you explain the dotcom bubble, when companies with no profits and barely any sales had billion-dollar valuations? And what lies behind the continued existence of market anomalies, such as the tendency for smaller companies to outperform?

Academics have been discovering these effects for decades. There are seasonal patterns (stocks tend to do well in January and poorly during the summer). There are also valuation discrepancies (growth stocks tend to underperform). Some of these effects may be random. Analyse enough data and a few oddities will show up; plenty of people think some lottery numbers are “lucky” because they occur more often—though it would be odder still if they all turned up the same number of times. Other effects are real, but may be costly to exploit. For small companies, higher returns may be negated by higher costs, reduced liquidity and higher risk (smaller firms are more likely to go bust).

The underperformance of growth stocks is linked to an overenthusiasm for extrapolation. A company increases its profits at 20% a year for five years and investors are tempted to believe it can do so for 15; historically, however, such paragons are about as rare as vegetarian cats. In contrast, the prices of “value” stocks (which have a poorer record but lower ratings) perform better than expected.

The latest quirk to be examined is momentum, or the tendency for stocks that did well in the past to do well in the future. Three academics at the London Business School devised portfolios consisting of stocks that had outperformed over a 12-month period. They waited a month to buy them and then rebalanced the portfolio after a further month. In the British market, the “winners” under this methodology outdid the worst performers by more than ten percentage points a year over the past 108 years.

Some of this excess return will have been eaten up by higher costs; trading costs were substantial until the last 20 years. The momentum effect has also suffered some sharp switchbacks (including an 80% decline in 1975) that may have wiped out those traders who tried to follow it. That could be about to happen now, given that the strategy would leave investors heavily exposed to mining stocks. Momentum wannabes should also be warned that the effect works for individual stocks over months, not years.

Nevertheless, it is still a puzzle why such a glaring anomaly has not been arbitraged away. Academics have just about abandoned the idea that all investors are rational; there are too many examples of psychological quirks (such as an aversion to recognising losses) for that to be the case. Nor can a bunch of “super-smart” investors necessarily keep prices in line; they may face constraints on their ability to trade or simply run out of money before the anomalies can be corrected.

Perhaps the most compelling reason why market prices are tough to beat is the “wisdom of crowds” phenomenon. If people are asked to estimate the number of jellybeans in a jar, their average estimate is usually quite close to the truth; indeed the average guess is far better than the vast majority of individual guesses. In other words, as Michael Mauboussin of the fund-management group Legg Mason remarks, the collective is smarter than the average person within the collective.

But this wisdom depends on the diversity of the people making the guesses. Mr Mauboussin argues that problems occur when diversity breaks down and “groupthink” starts to take over. Investors no longer guess how many jellybeans are in the jar, but what other people's guesses might turn out to be.

There's an old test that neatly makes this point. Participants have to choose a number between zero and

100 that will be two-thirds of the average choice of the others taking part. So if you thought the average would be 50, you would go for 33. However, if everyone makes this logical leap, the best guess should be 22 (two-thirds of 33). Extend this process a few times and you can work out that the best choice would be zero. In real life, however, not everyone is so rational and the correct answer is never that low.

In short, it is very hard to quantify the precise irrationality of investors. That is why investors get lured into buying dotcom stocks in the hope that a “greater fool” will purchase them at a higher price. And that is why there will always be market anomalies for academics to discover.

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Commodities

What downturn?

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The price of raw materials continues to rise despite the economic gloom

BANKERS and policymakers may be wringing their hands about the prospects for the world economy, but commodities traders, it seems, see no cause for concern. On February 20th the oil price hit a new record of $101.32 a barrel. Soyabeans and platinum, among others, have also reached record prices in the past week. Vale, a Brazilian mining firm, has persuaded some steelmakers to pay as much as 71% more this year for its iron ore. Across the world the inflationary impact is tangible (see article). In America consumer prices in January were up 4.3% on a year-over-year basis. Excluding food and energy, they were up 2.5%, well above the Federal Reserve's comfort level.

Despite a few years of rising raw-materials prices, many traders remain bullish in part because of further bad news about supply. A shortage of electricity in South Africa, which has forced several big smelters to shut down, has helped cause platinum's giddy ascent. The political upheaval in Kenya has pushed tea prices higher. A leaking pipeline in Nigeria and a row between Exxon Mobil and Hugo Chávez, the president of Venezuela, have contributed to oil's recent gains.

Mining and oil firms are struggling to increase output, partly because it takes years to develop new mines or oilfields, partly because shortages of equipment and labour are hampering expansion, and partly because governments in resource-rich countries are becoming ever more prone to jacking up royalties or expropriating resources. Citigroup, for example, expects global copper production to rise by just 2% this year, even though the price is now five times higher than it was five years ago and stocks amount to less than three days' demand.

In theory, farmers should be quicker to respond to price signals, since they can easily substitute one crop for another. But the prices of wheat, corn and soyabean are all high, so any big shift towards one crop will come at the expense of the others. There is huge potential to bring more land under cultivation in Ukraine and Kazakhstan—but that would need improvements to infrastructure that could take years.

Meanwhile, most analysts expect demand for raw materials to remain firm despite the gloomy economic news. Although Goldman Sachs, for one, expects oil consumption to fall in America, it also predicts that continued growth in booming spots such as China and India will underpin global demand. The International Energy Agency, a watchdog group for consuming countries, still expects the world's consumption of oil to rise 1.9% this year.

Worse, rising prices and tightening credit give the firms that process raw materials an incentive to run down their stocks, argues Jeffrey Currie of Goldman Sachs, making prices all the more vulnerable to supply shocks. America's Department of Agriculture believes global demand for wheat will continue to exceed supply this year. That will push America's wheat stocks to their lowest level since 1948 (see chart).

Nonetheless, the prospects for demand must have diminished at least somewhat as the world economy has slowed, and the outlook for supply has not worsened dramatically in the past few months. Hence some other factor must be at play. Many analysts blame speculation. As falling interest rates, tumbling stockmarkets and contracting house prices drive investors out of bonds, equities and property, the argument runs, there is lots of money looking for a new home. And since commodities have produced such lavish returns in recent years, and have weathered the recent turmoil relatively unscathed, they are an alluring option.

Citigroup believes that the recent rise in the oil price “is driven principally by a sharp uptick in fund flows.” Lombard Street Research sees an “iron bubble”. Others worry that America's fiscal stimulus may cause trouble by inflating demand for commodities. In Citigroup's cheery phrase, “the collapse of one bubble often sows the seeds of the next.”

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Asian price controls

In a fix

Feb 21st 2008 | HONG KONG
From The Economist print edition

Putting caps on prices is only a short-term solution

ACROSS Asia inflation is rising, largely because of higher food and energy prices. China's inflation rate surged to an 11-year high of 7.1% in January and looks set to climb further this month, after some severe snow storms. India, Indonesia, Thailand and Singapore all have inflation rates above 4%.

Central banks are reluctant to raise interest rates by much at the same time as America's Federal Reserve is slashing its rates, for fear this would attract foreign capital and push their currencies sharply higher. Stronger currencies would in fact help to reduce the price of imported food and energy. But instead, many governments are resorting to price controls and government subsides to curb inflation. India has long imposed price ceilings on a wide range of goods. Thailand, Malaysia and the Philippines are considering new price controls or subsidies. In January the Chinese government froze the prices of energy, transport and water, and announced that producers of essential food items, such as meat, grain, eggs and cooking oil must seek approval before raising prices.

After three decades of market liberalisation in China, some view this as a great leap backwards. But Chinese officials understand that holding down prices reduces the incentive for producers to increase supply, creating shortages that can push prices higher. It also dampens the incentive for households to curb demand.

Chinese officials say that the measures are only temporary and food prices are being “monitored”, not frozen. Indeed, the main purpose of the measures appears to be political: the leadership wants to be seen to be responding to public concerns over rising prices. Inflation has been a big cause of unrest in Asia many times in the past, most notably the 1989 Tiananmen Square demonstrations.

The World Bank in its *China Quarterly Update* argues that in the short run the benefits of price controls in curbing inflation expectations may outweigh the detrimental effects. This is because the increase in inflation has been mostly driven by food, as a result of supply shocks, rather than caused by excess aggregate demand. The 60% jump in the price of pork over the past year, for instance, has been largely caused by disease, not a surge in demand. In the longer run, however, the damaging effects of price controls on incentives and efficiency will outweigh the benefits.

But even if there may be a case for temporary price controls on food, the long-standing controls and subsidies that hold down fuel prices across the region need to be scrapped. In Malaysia and Indonesia, which have the cheapest petrol in Asia, fuel subsidies account for over 10% of total government spending.

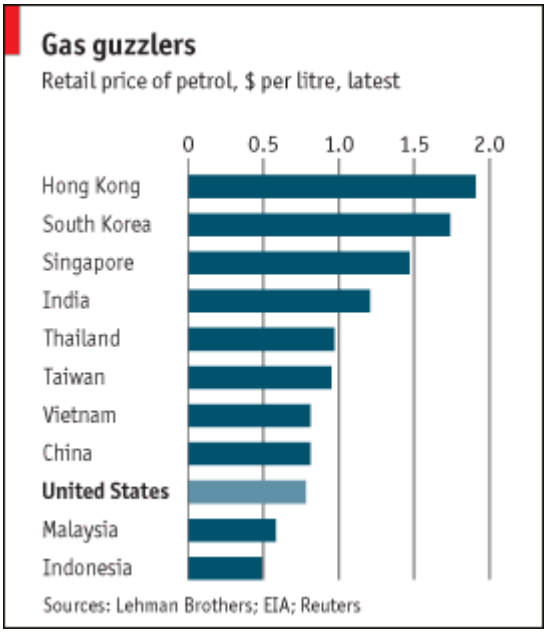
India's government agreed on a timid 5% rise in petrol prices on February 15th—the first increase in 20 months. China raised petrol prices by 10% last November, but oil refiners are still being forced to sell fuel below its international cost, which has caused shortages at petrol stations.

Not only are price controls no long-term cure for inflation, argue many Western commentators, but if domestic fuel prices are not allowed to rise in line with crude-oil prices, then motorists from Beijing to Bangalore will guzzle more oil. This, in turn, pushes global oil prices higher.

It is true that Asian economies have been slow to raise petrol prices in recent years. Yet, as the chart shows, motorists in most Asian countries, including China and India, pay more for

their petrol today than Americans do. (Only Indonesia and Malaysia pay less.)

China and the rest of Asia certainly need to set energy prices free to improve their own economic efficiency. But Americans who blame rising global oil demand and prices on Asia's cheap-energy policies should look closer to home too.



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Commercial property

Taking Manhattan

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From The Economist print edition

A new record price for an office building defies the recession talk

IT IS said that nobody ever made money by owning the General Motors building, only by selling it. And yet again the Manhattan landmark building by the south-eastern corner of Central Park is about to change hands for a price that seems justified only by the greater-fool theory that one day someone will be willing to pay even more. In the first round of bidding, there were several offers of $3 billion, which would be a new record for a single building in America beating the $1.8 billion paid last year for nearby 666 Fifth Avenue. Hopes are high that the final price will be well above that.

No one hopes so more fervently than the owner, Harry Macklowe, who needs it to fetch at least $3.4 billion in order to repay a loan, for which the building is collateral, from the publicly traded hedge-fund group, Fortress. Mr Macklowe is in trouble because he paid too much for properties offloaded by the private-equity giant, Blackstone, from the portfolio of Equity Office Properties, a property firm it bought for a record last year, in the final gung-ho days before credit dried up. Reportedly, the rents on the GM building barely cover the interest on the mortgage.

Mr Macklowe bought the skyscraper for $1.4 billion in 2003, from owners such as Donald Trump, who regrets selling. One of the defeated bidders then, Sheldon Solow, is still contesting in court the decision to sell to Mr Macklowe, whose improvements to the building include introducing a super cool Apple Store in front of the famous FAO Schwarz toy shop.

At the very least, this high-priced bidding war suggests that New York's commercial real-estate business is in better shape than some of the city's banks. Yet, as a trophy property, the price offered for the GM building may say more about the continuing robust financial health of wealthy buyers than incremental changes in demand for office space in New York.

There is also the falling dollar. A report from Cushman & Wakefield, a property adviser, reckons that with average rents of $100 a square foot, New York ranks only the tenth-most-expensive among global cities in which companies like to put their headquarters. One bidder reportedly has strong backing from Arab investors. This is a sign that the weak dollar is making American assets attractive to foreign shoppers with cash to splash.

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Banks and accounting

More holes than thou

Feb 21st 2008 | FRANKFURT AND NEW YORK
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The guessing game continues

YET another knock to Switzerland's reputation as a place where money is lovingly and carefully looked after by bankers. A week after Credit Suisse's chief executive Brady Dougan boasted of the firm's risk-management culture, on February 19th he was forced to acknowledge a $2.85 billion mistake in the firm's trading valuations in the first quarter.

As the bank prepared a bond offering, senior staff apparently discovered the hole at the end of last week. They were reviewing the books of people in London trading collateralised-debt obligations and residential mortgage-backed securities. The prices used were out of date in a market that had rapidly deteriorated in January and February. A handful of dealers have been suspended while Credit Suisse investigates whether the tardy valuations were deliberate—perhaps with an eye to year-end bonuses—or just sloppy.

For all the embarrassment, Credit Suisse has still performed better during the crisis so far than UBS, its Swiss rival, which has written down $18.4 billion on credit-market securities. But its disclosure shows why there is so much mistrust in the credit markets about banks' accounts, and why transparency is now being used as a competitive weapon.

In comparatively good results this week Barclays, the British bank, and France's BNP Paribas gave elaborate details of their net year-end exposures to leveraged-loan commitments and subprime assets. But shares of British banks Alliance & Leicester and Bradford & Bingley have been clobbered by unexpected write-downs on subprime-related investments, and there are fears other European banks have plenty more explaining to do.

The trouble is, in today's illiquid trading environment, such fair-value accounting judgments are based as much on educated guesswork as market prices, which leaves plenty of room for error. (AIG, an American insurance group, owned up to a further $4 billion loss in its portfolio of credit derivatives to the end of November, though under protest: unlike PwC, its auditor, it believes the price of these assets will bounce back.) Accounting lore recommends a procedure that includes “making assumptions about the assumptions market participants would use”; that leaves plenty of room for disagreement with auditors.

Which is why risk officers are facing demands for ever more detail from analysts. “If I give you more numbers,” protested Hugo Bänziger, chief risk officer of Deutsche Bank, at a recent analysts' meeting, “you end up doing my job.”

There were hopes that year-end results would provide some respite. But the Credit Suisse shock reminded the market that the year-end was only a snapshot of a moving target, and perhaps not a very accurate one. (Credit Suisse is still checking whether the mispricing began last year and will affect its 2007 results.) Moreover the year-end results have not yet been signed off by auditors. That suggests there will be plenty more uncertainty between now and April.

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Deutsche Bank

Snakes and ladders

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From The Economist print edition

How careful should a bank be about what it sells to its clients?

DEUTSCHE BANK likes to do things in a big way. Alone among German banks, it has managed to escape the confines of its sluggish home market and made the world its battleground. Smaller than many of its Wall Street rivals, it trumped some of them on their home turf by spotting the end of the subprime boom early. It made a respectable €6.5 billion ($9.5 billion) of profit last year with only negligible write-downs of complex subprime securities in the fourth quarter.

For a bank navigating such turbulent waters abroad, a string of lawsuits filed against it in Germany for selling hard-to-understand products to local authorities may seem like a minor nuisance. Yet like the subprime fiasco, they illustrate how gullible some investors were when confronted with startlingly opaque products. They also pose questions about a bank's responsibility to ensure that its clients understand what they are buying.

The problems date back to 2004, when banks such as Deutsche, Commerzbank and HVB built complicated interest-rate “swap” products sold to companies and local-government authorities with treasurers who were keen to “optimise” the interest they paid on their debt.

When those products soured for their clients, Commerzbank, HVB and others sought to settle. Deutsche Bank, on the other hand, decided to fight in court allegations that it had given “bad advice” on a product that pitched clients into potentially huge losses. A Berlin court last year ruled that Deutsche bore half the blame for poor advice it gave to Bleck, a mid-size building firm. Two more cases are threading through the courts and many others, perhaps 40, are being prepared. The biggest is the city of Hagen, which is suing Deutsche Bank for losses of €57m on a nominal investment of €170m.

The products, known as “CMS spread ladder swaps”, flourished at a time when local governments felt they were paying too much in fixed interest payments as euro interest rates were falling. Deutsche offered to swap the fixed rates for floating, and based the level of these on the difference between two interest rates—most commonly the two-year and ten-year swap rate.

So far so simple, but the actual floating rate was set by a mind-bogglingly complex formula: the interest-rate spread was subtracted from an arbitrary figure, doubled or trebled, and added cumulatively to the rate paid in the previous period. If the gamble went well, municipalities could theoretically make a return of 10% or so on the nominal amount. Except that, in most cases, Deutsche Bank could terminate the arrangement every six months after the first year, which would leave the customer with not much more than 2% profit.

The product enabled the client to make money when there was a steep yield curve between the two- and ten-year rate. But the curve unexpectedly flattened during 2005, which meant that clients by the end of a five or seven-year deal could be paying as much as 25% to the banks.

It seems extraordinary that so many treasurers were prepared to accept such a one-sided bargain. But about 700 are estimated to have done so, of whom 200 served public utilities or municipalities.

Deutsche Bank insists that all the risks were spelt out in its marketing material. Its arguments were partially borne out at a court hearing in Würzburg on February 12th, when the former finance manager of WVV, a Würzburg city utility, acknowledged that he had understood everything. But some plaintiffs question whether the product was appropriate for the client, and say the marketing literature referred to the risks almost as an aside, rather than as a general health warning. They believe the bank had a duty of care to its clients.

Deutsche Bank argues that these were professional counterparties that were not forced to accept its

terms. One canny treasurer, Ekkehard Grunwald of the city of Salzgitter, insisted in his deal that the bank should not have the right to terminate, and that his potential losses should be capped. He still lost money but reckons that, once modified, it was a reasonable bet.

Lawyers on both sides believe Germany's supreme court will have to decide on the appropriateness of selling such products, especially to municipalities. Some believe Deutsche may be testing claims in the courts in part to discourage further plaintiffs hoping to sue. Once a deal has run three years clients cannot file a claim.

All of which suggests that Deutsche has played a shrewd game. Reputation is still a precious commodity in banking, however. Although profitability may be the best foundation of a bank's name, its name is also the best foundation of its long-term profitability.

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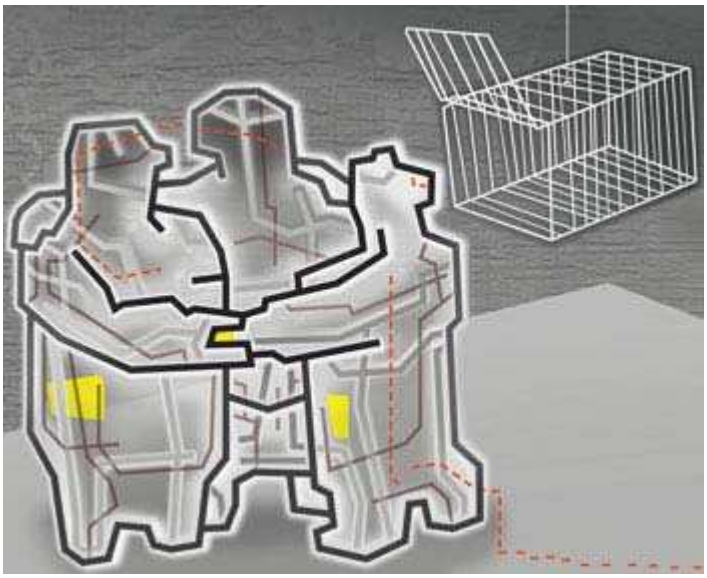
Economics focus

Well-dressed thieves

Feb 21st 2008
From The Economist print edition

JAC



Why the threat of prison is necessary to deter cartels

GRIMSBY lies on the Humber estuary on England's east coast. It is an unlikely location for a landmark white-collar crime. The town, which once had a thriving sea-fishing industry, last troubled the business pages three years ago when Unilever, a food company, announced that it was closing its fish-finger factory there. Yet next month three executives, two of them former employees of Dunlop Oil and Marine based in Grimsby, go on trial in Britain for their role in a global price-fixing cartel.

The three have already pleaded guilty in America to their part in a conspiracy that carved up the market for marine hose—used to funnel oil from tankers to storage facilities. The defendants face jail under the terms of a plea-bargain with American prosecutors. Time served in British prisons will be knocked off the sentences handed down in America.

The British trial is the first under new powers granted in 2003 and reflects a harder line against price-fixing throughout the rich world. Cartels have long been prohibited, but many countries have recently adopted criminal sanctions. Conspiring to rig markets is punishable by prison in Germany, France, Ireland, Japan and Canada, as well as America and Britain. Australia is about to join the club too. Its new government, led by Kevin Rudd, confirmed last month that it would make cartels face jail.

What explains the clamour for harsher penalties? After all, other sins against competition are usually dealt with by an order to desist or a fine. When European Union courts upheld the case against Microsoft for abuse of its dominant position last year, the firm had to fork out a hefty €777m ($990m). But Steve Ballmer, the software giant's CEO, was never threatened with prison.

That is just as well. Antitrust breaches such as the ones that Microsoft was convicted of—using its monopoly in desktop operating systems to hinder rivals in related markets—are hard to distinguish from robust competition. One of the firm's misdeeds was to bundle its media player with Windows. Yet bundling is a common business practice that can be entirely legitimate. Every greasy-spoon café bundles its eggs, bacon and sausages on to a plate that is sold for less than the sum of the constituent parts.

It is often tricky to draw the line between healthy discounting and predatory pricing too. Loyalty discounts are widely used in business and have benefits for consumers and suppliers alike. But such schemes can be used nefariously to keep rivals out of a market and preserve an incumbent's monopoly.

In cases such as these, it is hard to say for sure whether firms' actions are harmful to consumers. The immediate benefits of lower prices have to be weighed against uncertain longer-term costs. Firms may be genuinely unclear on what is permissible and heavy sentencing may make them wary of competing aggressively.

There is no such risk of over-enforcement with cartels. For big and sophisticated firms, entering into an agreement to fix prices is a clear and knowing conspiracy against consumers. And because such pacts are secret and hard to uncover, harsher penalties are needed if the expected costs of price-fixing are to exceed the likely benefits. In principle, a big fine might suffice. But in practice a fine large enough to work as a deterrent would financially cripple a company, further impairing competition and harming innocent bystanders, such as suppliers and workers.

Sanctions against culpable executives ought to be more effective. Fining managers, however, has some of the same problems as fining firms. Because there is only a small chance of being caught, a penalty big enough to put off a budding price-fixer may be many times his wealth—and hence unpayable.

There is some evidence to suggest that the personal sanctions are a more effective deterrent than financial penalties. A survey carried out for Britain's Office of Fair Trading (OFT) asked executives to score the deterrent effect of five sanctions. Fines ranked fourth and private damages fifth, behind bad publicity and being disqualified from doing business. The most feared punishment was prison. In America trustbusters say that busted price-fixers regularly offer to pay bigger fines to try and avoid jail.

Waving a get-out-of-jail-free card

The threat of jail also helps with the detection of cartels. Trustbusters rely heavily on the promise of amnesties to crack price-fixing conspiracies. Immunity for whistleblowers strikes at the heart of a cartel, because each conspirator is aware one of the others could rat to the authorities and escape punishment. The harsher the penalty, the greater the spur to be first to confess.

Since penalties in America were strengthened in 2004 the caseload of cartel-busters has increased. At the end of the past fiscal year, there were 135 pending investigations, the highest since 1992. The OFT's own leniency policy was instrumental in breaking up a price-fixing deal on transatlantic flights between Virgin and British Airways (BA). Virgin spilt the beans; but only BA paid a fine. And though both companies agreed $204m compensation with passengers on February 15th, a criminal investigation is still in progress and BA executives may yet go to jail.

In Australia Visy was fined A$36m ($32m) in November for fixing the price of cardboard. The case created a stir because of the record fine and because the judge said that every Australian had been harmed by the cartel each time they bought goods that had been moved in cardboard boxes.

Or to put it more bluntly: consumers were robbed. As Australia's chief trustbuster, Graeme Samuel, noted after the trial,“Cartels are theft—usually by well-dressed thieves”. Attitudes towards white-collar crime have changed since the 1970s, when a senior American judge sentenced cartel members to giving lunchtime lectures on the evils of price-fixing. Today the belief that the punishment should fit the crime is gaining ground. Cosy deals with rivals, even perhaps ones hatched in uncosy places such as Grimsby, are larceny and should be treated as such.

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The American Association for the Advancement of Science

And now here is the virus forecast

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The first of four reports (see also article, article and article) from the American Association for the Advancement of Science looks at predicting plagues

ON FEBRUARY 18th a glimmer of hope died. The Population Council, a big international charity, announced the results of one of the largest trials yet undertaken of a vaginal microbicide intended to protect the user from infection with HIV, the virus that causes AIDS. It failed. Carraguard, whose principal ingredient is a gel derived from seaweed, proved no more effective than a placebo in an experiment involving 6,000 South African women.

AIDS kills over 2m people a year. A way of stopping it spreading is urgently required. Yet according to Nathan Wolfe, a virologist at the University of California, Los Angeles, things need never have got this bad. If there had been, in the 1970s, a programme searching for unrecognised diseases in Africa then AIDS would have been noticed long before so many people had started dying from it. Microbicides and other interventions could have been tested when only hundreds of thousands were infected, rather than tens of millions. AIDS would still have been horrible, but not nearly as horrible as it has become.

To try to stop this happening again, Dr Wolfe is attempting to create what he calls the Global Viral Forecasting Initiative (GVFI). This is still a pilot project, with only half a dozen sites in Africa and Asia. But he hopes, if he can raise the $50m he needs, to build it into a planet-wide network that can forecast epidemics before they happen, and thus let people prepare their defences well in advance.

Dr Wolfe outlined his ideas, and the research that has led him to believe they are feasible, to this year's meeting of the American Association for the Advancement of Science (AAAS) in Boston. He began his work nearly a decade ago in Cameroon, in a project reminiscent of the 19th-century animal-collecting expeditions that pushed into the forest to look for new species. Except that his quarry is viruses, not butterflies and birds.

Small-game hunter

Almost all human viruses whose origins are known have come from animals. But it is not simply a matter of an animal virus suddenly finding humans to be a congenial host, and flourishing as a result. With AIDS, for example, the global epidemic is caused by what was originally a chimpanzee virus. There is, however, a second form of AIDS, caused by a monkey virus. This has not become global. It is pretty much restricted to West Africa. Moreover, there are a further two very rare forms caused by different

versions of the chimpanzee virus. These rare forms are examples of what Dr Wolfe calls viral chatter, a term borrowed from intelligence agencies which monitor telephones for the use of certain words or unusual patterns of communication.

His thesis is that there is continual low-level interchange of viruses between species. That is particularly so for people, such as hunters and farmers, who are in constant and often bloody proximity to animals. His hope is that by monitoring this viral chatter he will be able to spot pathogens before they take the second, crucial evolutionary step of being able to transmit themselves from one human to another.

So far, he has concentrated his efforts on a group known as retroviruses, of which HIV is one. He has already found three examples of “foamy viruses” jumping from wild apes and monkeys to Cameroonian hunters. At the moment, no known foamy virus can spread between people. But until the 20th century that was true of the simian equivalents of HIV.

He has also found two new members of a group called HTLV that have moved from monkeys to men. Since HTLV-1, an example of the group discovered several decades ago, has already spread around the world, these cases are particularly noteworthy. HTLV-1 is not as common as HIV, and causes symptoms in only 5-10% of those it infects. But those symptoms can include a fatal leukaemia. And a different type of HTLV might not be so choosy about whom it kills.

Even more worryingly, Dr Wolfe has found many examples of viruses recombining in his Cameroonian hunters. Recombined viruses often have properties present in neither parent. Sometimes these include the ability to jump from human to human. The pandemic version of HIV is the result of such a recombination.

The next stage of the project is to try to gather as complete an inventory as possible of animal viruses, and Dr Wolfe has enlisted his hunters to take blood samples from whatever they catch. He is collaborating with Eric Delwart and Joe DeRisi of the University of California, San Francisco, to screen this blood for unknown viral genes that indicate new species. The GVFI will also look at people, monitoring symptoms of ill health of unknown cause and trying to match these with unusual viruses.

Nor, if Dr Wolfe can raise the money, will the project be confined to tropical forests. Animal markets are next in line. Dr Wolfe is working with Peter Daszak, of the Consortium for Conservation Medicine, to study the so-called wet markets of China where SARS began in 2002. They will inspect the animals sold in them, and test the stallholders and customers for signs of dodgy viruses. Dr Daszak is a co-author of a study published in this week's *Nature* that maps the global “hot spots” of emerging diseases and concludes, as Dr Wolfe has, that the real threat lies in the tropics. That is despite the fact that most new diseases are (as with AIDS) first noticed in rich countries.

If and when the GVFI is running smoothly, Dr Wolfe hopes to see not only what is threatening, but also to identify the general characteristics (if any) that threatening viruses share. If some features are regularly associated with a propensity to become pandemic, then forecasting outbreaks of new viral diseases will become easier and more scientific. At that point, this branch of medicine will be able to make the most important leap of all—from cure to prevention. And then a catastrophe like AIDS will need never happen again.

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Human evolution

Moral thinking

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From The Economist print edition

Biology invades a field philosophers thought was safely theirs

WHENCE morality? That is a question which has troubled philosophers since their subject was invented. Two and a half millennia of debate have, however, failed to produce a satisfactory answer. So now it is time for someone else to have a go. And at a panel discussion at the American Association for the Advancement of Science meeting, a group of biologists did just that.

Mark Hauser, of Harvard University, opened the batting by asking whether morality is more than just the refined application of the emotions. He thinks that it is. Human brains, he believes, have a separate morality module. Brain-scanning experiments show that when a volunteer is faced with a moral dilemma (such as a runaway railway trolley approaching a set of points, with dire consequences whichever way he throws those points) his emotional centres are not involved in the decision. Such “trolleyology”, as it has waggishly been dubbed, also suggests that reason is not part of the process. Different ways of killing the same number of people with a runaway trolley produce systematically different answers.

That does not mean all moral decisions have to be the same in everyone (though in trolleyology they often are). Instead, Dr Hauser uses the analogy of language. All healthy humans have, in the words of his Harvard colleague Steven Pinker, a “language instinct” which incorporates the idea of nouns, verbs, adjectives and how these all fit together. Exactly which language you learn, though, depends on your upbringing.

David Sloan Wilson, of Binghamton University, in New York state, agrees with that point, but reckons the actual moral sense an individual acquires is not arbitrary, as a language is, but is functionally adapted to circumstances. He and his colleague Ingrid Storm looked at liberals and conservatives (in the American senses of the words). Each group has a package of values it sees as moral, while viewing many of the beliefs of the other side as immoral. Dr Wilson and Dr Storm restricted their study to white, Protestant teenagers, in order to eliminate confounding variables. However, their volunteers came from two different traditions—Pentecostal, which tends to the conservative, and Episcopalian, which tends to the liberal.

The researchers conducted the study by giving each volunteer a beeper that went off every two hours or so. When it beeped, the volunteer answered a questionnaire about what he was doing at that moment, and how he felt about it.

Dr Wilson and Dr Storm found several unexpected differences between the groups. Liberal teenagers always felt more stress than conservatives, but were particularly stressed if they could not decide for themselves whom they spent time with. Such choice, or the lack of it, did not change conservative stress levels. Liberals were also loners, spending a quarter of their time on their own. Conservatives were alone for a sixth of the time. That may have been related to the fact that liberals were equally bored by their own company and that of others. Conservatives were far less bored when with other people. They also preferred the company of relatives to non-relatives. Liberals were indifferent. Perhaps most intriguingly, the more religious a liberal teenager claimed to be, the more he was willing to confront his parents with dissenting beliefs. The opposite was true for conservatives.

Dr Wilson suspects that the liberal package of individualism and confrontation is the appropriate response to survival in a stable environment in which there is leisure for learning and reflection, and the consequences for a group's stability of such dissent are low. The conservative package of collectivism and conformity, by contrast, works in an unstable environment where joint action, and thus obedience to their group, are at a premium. It is an interesting suggestion, and it is one that plays into the question of how morality actually evolved.

That was addressed by Samuel Bowles, of the Santa Fe Institute in New Mexico. An important feature of

moral behaviour is altruism. Normally, biologists explain this as being either nepotism or you-scratch-my-back-and-I'll-scratch-yours. But Dr Bowles believes people do perform acts which cost them more than they gain. To explain this, he invokes an idea that went out of fashion in the 1960s: group selection. This says that the winnowing of the gene pool, which drives evolution, can favour or destroy entire social groups as single entities, as well as working at the level of individual organisms.

No one ever claimed group selection is impossible, but it looks mathematically unlikely. Dr Bowles, however, thinks that the virtues of human collaboration are so great that groups composed of genuine, self-sacrificing altruists would outcompete others.

His best example of such self-sacrifice is warfare, an activity in which morality and immorality intersect in ways that have always been puzzling—and where liberals and conservatives often draw opposite conclusions about what is right and wrong. Paradoxically, that clash of views suggests that Dr Bowles and Dr Wilson really are on to something with the idea of functional morality. Perhaps they and their colleagues can eventually do what philosophers have never managed, and explain moral behaviour in an intellectually satisfying way.

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Climate change

Sour times

Feb 21st 2008 | BOSTON
From The Economist print edition

The sea is becoming more acidic. That is not good news if you live in it

EVERY silver lining has its cloud. At the moment, the world's oceans absorb a million tonnes of carbon dioxide an hour. Admittedly that is only a third of the rate at which humanity dumps the stuff into the atmosphere by burning fossil fuels, but it certainly helps to slow down global warming. However, what is a blessing for the atmosphere turns out to be a curse for the oceans. When carbon dioxide dissolves in water it forms carbonic acid. At the moment, seawater is naturally alkaline—but it is becoming less so all the time.

The biological significance of this acidification was a topic of debate at the American Association for the Advancement of Science meeting in Boston. Many species of invertebrate have shells or skeletons made of calcium carbonate. It is these, fossilised, that form rocks such as chalk and limestone. And, as anyone who has studied chemistry at school knows, if you drop chalk into acid it fizzes away to nothing. Many marine biologists therefore worry that some species will soon be unable to make their protective homes. According to Andrew Knoll, of Harvard University, many of the species most at risk are corals.

The acid test

Dr Knoll drew this conclusion by studying the fossil record. The end of the Permian period, 252m years ago, was marked by the biggest extinction of life known to have happened on Earth. At least part of the cause of this extinction seems to have been huge volcanic eruptions that poured carbon dioxide into the atmosphere. But some groups of animals became more extinct than others. Sponges, corals and brachiopods (a once-widespread group that look a bit like bivalve molluscs) were particularly badly hit.

Rather than counting individual species of fossils, which vary over time, palaeontologists who study extinction usually count entire groups of related species, called genera. More than 90% of Permian genera of sponges, corals and brachiopods vanished in the extinction. By contrast, only half of the genera of molluscs (the real ones) and arthropods disappeared.

Dr Knoll reckons this is because molluscs and arthropods are able to buffer the chemistry of the internal fluids from which they create their shells. This keeps the acidity of those fluids constant. Sponges, corals and brachiopods, however, cannot do this.

The situation at the moment is not as bad as it was at the end of the Permian. Nevertheless, calculations suggest that if today's trends continue, the alkalinity of the ocean will have fallen by half a pH unit by 2100. That would make some places, such as the Southern Ocean, uninhabitable for corals. Since corals provide habitat and food sources for many other denizens of the deep, this could have a profound effect on the marine food web.

Gretchen Hofmann of the University of California, Santa Barbara, has brought some experimental evidence to bear on the question. She is investigating the effects of changing acidity and temperature in the sea on a creature called the purple sea urchin. This animal is a scientists' favourite for embryological experiments, and has thus had its genome sequenced (in part by Dr Hofmann, as it happens), so it is well understood. Dr Hofmann's work suggests that a combination of heat and acidity is more deadly than either alone. When she and her team reproduced the conditions which are predicted to prevail in 2100 if carbon-dioxide emissions are not curbed, they found that the genes of larval sea urchins had to work up to three times harder than normal to form the animals' skeletons. On top of that, those skeletons were often deformed.

No corals, no sea urchins and no who-knows-what-else would be bad news indeed for the sea. Those who blithely factor oceanic uptake into the equations of what people can get away with when it comes to

greenhouse-gas pollution should, perhaps, have second thoughts.

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Pollution

A poison Pill

Feb 21st 2008 | BOSTON
From The Economist print edition

Human contraceptives are bad for fish

ONE thing Canada is not short of is lakes. It has so many that it can afford to set some aside to experiment on. And that is what Karen Kidd, an ecotoxicologist at the University of New Brunswick, has just done to a small lake in north-west Ontario. She has poisoned it in the name of science.

Her chosen poison was oestrogen, one of the hormones that make women women and help to control the menstrual cycle. People flush a lot of oestrogen down the toilet. Some is natural. Some is the synthetic stuff used in oral contraceptives. There is a strong suspicion that if this oestrogen is not removed during sewage treatment (some works do, some do not), it causes serious damage to rivers and lakes. Until now, however, proof has been lacking. Dr Kidd wanted to find out if the suspicion was correct. As she told a session of the American Association for the Advancement of Science meeting in Boston, it is.

The lake's algae, bacteria and invertebrates appeared unfazed by the extra hormone which she dumped in the lake at regular intervals. Presumably, its chemistry was not similar enough to their own biochemicals for them to notice. But the population plunged in the smallest fish species, the fathead minnow. Male minnows became feminised: their sperm production was delayed and they started producing eggs. After two years of treatment, the fathead minnow population collapsed.

Other changes took longer. Pearl dace mature more slowly than minnows and can outlive them by several years. The dace therefore managed to hold out for three years before the lack of male potency brought about a population crash.

There was damage even to the lake's largest fish, its trout. Here the cause was less that boys were turning into girls than that the trout were on short rations—since the minnows had disappeared. But the upshot was the same: fewer trout, and confirmation that oestrogens are very bad news for fish, even at low concentrations.

The better news was that things quickly returned to normal once the hormone treatment stopped. Fixing sewage works to prevent them from spewing out oestrogen should therefore help fairly rapidly. Controlling the sale of contraceptive pills will not be necessary, and fishermen will once again be able to use their rods and tackle with impunity.

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Rural idylls

Under the greenwood tree

Feb 21st 2008
From The Economist print edition

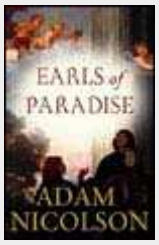
Bridgeman

A golden dream of rural bliss, guarded by iron feudalism

WHAT is it about shepherds and shepherdesses? John Aubrey, a 17th-century antiquarian, thought that the shepherds of Wiltshire “do give us resemblance of the golden age”. In the century before him, the Earls of Pembroke must have thought so too. For it was at Wilton House, their sheep-dotted Wiltshire estate, that they set about creating an elaborate pastoral idyll. It was there that Sir Philip Sidney, brother to the second Countess of Pembroke, composed his “Arcadia”. This was a prose romance, much admired at the time, featuring knights and shepherds, and scattered with poems in praise of woods, vales and rustic solitude.

But Arcadia, it turns out, is a difficult concept. Deeply hierarchical and backward-looking, opposed to every modern principle of equality and freedom, it nevertheless strikes a chord with modern communitarian and environmental thinking. Adam Nicolson's heartfelt and eloquent book manages to convey the beauty of the idea while never losing sight of the mailed fist behind it.

Earls of Paradise: England and the Dream of Perfection
By Adam Nicolson



Harper Press; 298 pages; £25

Buy it at Amazon.co.uk

His underlying subject is the coming together of two different traditions: the medieval, feudal accommodation between power and protection, and the classical dream (potent among Renaissance urban sophisticates who knew their Virgil and Theocritus) of rural bliss and primitive virtue. Together, these two traditions created an ideal from which sprang not only the great houses, parks and gardens of the period, plus the poetry and the drama, but also, says Mr Nicolson, a social equilibrium built on the principle of mutuality.

That was the theory, anyway. It didn't always work out. Enforced mutualism has a habit of being all on one side. But the mechanisms were there. Mr Nicolson's research into the Pembroke estate papers—surveys, accounts and inventories—reveals a world in miniature. It was a community of farms and villages with their own hierarchies, trades and workshops, their flocks and commons, their courts, police system and punishments.

Running through everything is an intensely local set of reciprocal rights and obligations between lord and tenant, sanctioned by memory (“time out of mind”, as the documents put it), and collectively known as “the custom of the manor”. Survival was the point, and in describing how tightly the community, mind and body, church and custom, was woven into the agricultural year, Mr Nicolson conveys a sense almost of nostalgia for a world where the land itself was “the map of who they were”.

Meanwhile, up at the great house, the Pembrokes were redrawing the map to make way for paradise—a pastoral fantasy in architecture, landscape and garden, complete with grotto and waterworks designed to imitate the sound of nightingales. It took three generations, and some brutality: productive land was enclosed, a village flattened and protest was bloodily silenced.

Mr Nicolson is under no illusions, though he does believe that, on the whole, the Pembrokes' estate was a good working example of mutualism. His point is that the idea of the pastoral idyll in the 16th and 17th century, however fantastic, went beyond aesthetics. It was meant to illustrate the ideal of the nation state as a body governed by head and limbs in equilibrium. As such Wilton House was a hard-edged political message sent to a monarchy that had begun to concentrate power, to marginalise the aristocracy and thus imperil that ideal.

It was a protest, argues Mr Nicolson, against tyranny, akin to Shakespeare's Forest of Arden in “As You Like It”. His book may raise scholarly eyebrows with its certainties and assumptions about Shakespeare's disputed connection with the Pembrokes. But its recreation of key moments in a possible performance of the play before James I at Wilton vividly dramatises the argument.

The Earls of Pembroke shone brightest just as their sun was setting, and never more splendidly than in the red, orange and blue silks of Van Dyck's family portrait in 1635. A few years later, monarchical absolutism was answered by civil war and a much fiercer kind of politics. Arcadia had had its day.

Mr Nicolson mourns the death of mutualism and the rise of cash, the free market and individualism in the following centuries. William Cobbett's appalled description of rural poverty in the 1820s is his requiem for the principle. But by then, perhaps, the right to vote would have been more to the point than Arcadia.

Earls of Paradise: England and the Dream of Perfection.
By Adam Nicolson.
Harper Press; 298 pages; £25

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United Nations

A brave man's journey

Feb 21st 2008
From The Economist print edition

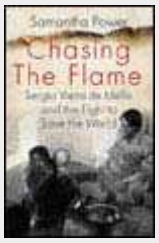
TIMID bureaucrats not headstrong brainboxes may leap to mind when United Nations officials are mentioned. But Sergio Vieira de Mello, who was killed when jihadists blew up his UN headquarters in Baghdad in 2003, was an exception. Samantha Power's detailed and sympathetic biography tells the tale of a Brazilian expatriate whose world outlook was shaped by the left-wing idealism of Paris in 1968 but then tempered by ever-increasing doses of reality.

By the end of his life, Vieira de Mello had junked the Marxism and anti-Americanism of his youth, as well as the niceties of UN procedure. He saw law and order as a vital adjunct of peacekeeping; he believed international intervention worked only if it was cloaked in legitimacy; and that it was always necessary to engage with the worst people in a conflict, if only to see how best to neutralise them.

EPA

Charm, courage and cunning

Chasing the Flame: Sergio Vieira de Mello and the Fight to Save the World
By Samantha Power



Penguin Press; 622 pages; $29.95.
Allen Lane; £25

Buy it at
Amazon.com
Amazon.co.uk

The book provides a thoughtful account of the conflicts and disasters that changed his mind. These stretched from Lebanon to Cambodia, from Rwanda to ex-Yugoslavia, from East Timor (his biggest success) to the post of UN human-rights commissioner and, finally, to catastrophe in Iraq. He was on the scene during the dying spasms of the cold war and the birth pains of the new American century: cajoling parties to the conflict, wheedling outsiders for money and fuming at the leaden, out-of-touch officials back home.

Ms Power, a professor at the Kennedy School of Government, describes Vieira de Mello as “brave but enigmatic”. He was willing to do things and go to places that most international bureaucrats would have found too risky: bringing the Khmer Rouge to the negotiating table was a high point. In the blurry world between humanitarian aid and international law he was as good as it gets, wielding a mixture of ambiguity and decisiveness with the personal and institutional authority to make it all, sometimes, work.

As a person, he remains a bit of a puzzle. He was a great womaniser—in a way that perhaps seems more scandalous now than it did in the 1970s—yet he stayed married to a faraway wife for two decades. He was an arch pragmatist, but remained idealistic about the UN's goals. He was a brilliant leader of a small team, but bad at managing a big one. He seems to have relied heavily on charm.

A striking lesson from the biography is the incompetence that surrounded Vieira de Mello after he was blown up. As he lay trapped in the ruins, rescuers tried frantically with their hands to shift the rubble. What they needed were planks to stabilise the debris and jacks to lift it. All that came too late. The UN, which had previously failed to blast-proof the windows of a headquarters under imminent threat of attack, was then too stuffy to fly his Baghdad-based Argentine fiancée all the way to his memorial service in Brazil.

Chasing the Flame: Sergio Vieira de Mello and the Fight to Save the World.
By Samantha Power.
Penguin Press; 622 pages; $29.95.
Allen Lane; £25

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Economics

How to get a lover and win at poker

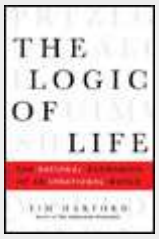
Feb 21st 2008
From The Economist print edition

THERE was a time when economics was widely seen as a graph-strewn study of exchange rates, gross domestic product and the like. Tim Harford's 2005 bestseller, “The Undercover Economist”, was a book that has helped shift that perception by bringing the not-so-dismal science to a wider audience.

Mr Harford's second book, “The Logic of Life”, stakes out similar ground. Once again he eschews chalkboard economics in favour of a reader-friendly guide to the economics of everyday life. The result is a fascinating study of how society is shaped by hidden pay-offs and punishments. Compulsive gambling or inflated boardroom pay might seem like madness, but look closer, says Mr Harford, and you find a kind of logic.

The author sees rational calculation everywhere—even, or perhaps especially, in matters of love. Romantic types might say they seek the perfect soulmate but the revealed truth is more prosaic. Marriages are market-based transactions, swayed by supply (what is available) as much as demand (what the heart desires). Men may prefer slim women and women favour tall men, but both will alter their demands in response to market conditions. Suitors settle for what is on offer now, even if plumper or shorter than the ideal, rather than hold out for the perfect partner.

The Logic of Life: The Rational Economics of an Irrational World
By Tim Harford



Random House; 272 pages; $25.
Little, Brown; £18.99

Buy it at
Amazon.com
Amazon.co.uk

The book surveys shelf after shelf of the economics literature but in such skilful hands it does not feel like a dutiful trip to the library. Economists are often too beguiled by elegant theories, but Mr Harford wisely confines himself to ideas that have been carefully tested against real life. Only thorough research could discern that residents of high-rise buildings are more likely to be victims of crime, because stacked tenants make for poor monitors of the surrounding streets. Even the excellent chapter on game theory has a practical hero: the card player, Chris “Jesus” Ferguson, who applied its lessons to win the poker world championship in 2000.

Mr Harford, who works at the *Financial Times*, is an amiable guide for the non-specialist reader, neither too lofty nor dumbed-down. The book's tone is breezy, but his command of the subject is such that even a well-schooled economist will discover much that is new. It is not a wonkish tome, but its broad policy prescriptions are clear enough. Since behaviour is governed by incentives, the way to achieve different outcomes is to alter the pay-offs carefully.

One of the merits of “The Logic of Life” is its variety. Subjects range from the terrifying logic of “rational racism” to a cold calculus of divorce rates. If you want to know which poker hands to bluff with, why neighbourhoods with permanent residents have more road crossings or why digital communication makes the world spikier not flatter, Mr Harford's book provides some answers. And it does it all without an exchange-rate graph in sight.

The Logic of Life: The Rational Economics of an Irrational World.
By Tim Harford.
Random House; 272 pages; $25.
Little, Brown; £18.99

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Poverty

Yogurt or cucumber?

Feb 21st 2008
From The Economist print edition

AN UNUSUAL factory recently began operation near the town of Bogra in Bangladesh. It makes yogurt, fortified with nutrients that poor toddlers often lack, and sweetened with the date molasses the Bangladeshi palate demands. Its marble foundation stone was signed by Zinedine Zidane, one of the world's greatest footballers, and its owners think the factory will inspire a nobler breed of capitalism.

The factory traces its origins to a 2005 meeting in a Paris restaurant between the chief executive of Groupe Danone, a French multinational, and Muhammad Yunus, founder of Grameen Bank, who won the Nobel peace prize in 2006 for championing the cause of microcredit. In his new book, Mr Yunus describes how Grameen and Danone agreed on a joint venture to sell nutritious food to the poor. It is a wholesome tale of French businessmen finding meaning in their lives, and Bangladeshi children enjoying something better than rice gruel to eat. But Mr Yunus also smothers the story in molasses, making claims about the originality and profundity of the enterprise that are simply too rich to take.

The yogurt factory is what Mr Yunus calls a “social business”: a new concept, he argues, that has the potential to ease poverty and redeem capitalism. A social business has two distinguishing features. It offers worthwhile products that poor people are willing to pay for. And the profits it makes are reinvested in the enterprise, not distributed to its owners. A social business is a “zero-loss, zero-dividend” venture, as Mr Yunus puts it.

Mr Yunus foresees social businesses bringing clean water, renewable energy and health insurance to the impoverished masses. Let's hope so. But non-profit corporations of various kinds are hardly new. America alone has about 1.4m of them by one count, including hospitals and universities, if not yogurt factories, that charge low rates to the poor and are forbidden from distributing their profits to owners.

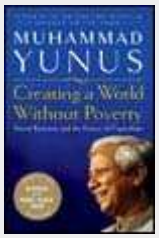
Mr Yunus might argue that these non-profits rely on donors, not investors. But the difference is more apparent than real. A social business promises to repay its backers' money after, say, five years, but with a 0% return. This is just another way of asking investors to donate the interest they would have received had they left their money in the bank instead.

However tasty and nutritious the yogurt they eat, the poor will not consume their way out of poverty. To escape, they must find a way to make more money. This simple truth is repeated by Paul Polak, the founder of International Development Enterprises (IDE), in “Out of Poverty”, his wise and engaging new book.

Most people in extreme poverty work on small, rain-fed farms, growing staple grains partly for their own consumption. These crops provide a family's best guarantee of survival, but no more than that. To break free of this unhappy equilibrium, farmers must set aside a portion of their land to grow cash crops in the dry season, when they fetch a high price. IDE helps farmers gain access to the irrigation, fertiliser and markets they need to make that strategy work.

Whereas most people find poverty distressing, Mr Polak also finds it endlessly fascinating. He is happiest muddying his boots on thousands of one-acre farms, marching up hillsides to inspect irrigation tanks, or loitering in a market, measuring the shelf-space that stallholders devote to different vegetables. He

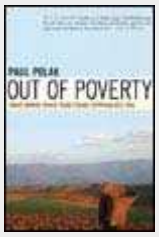
Creating a World Without Poverty: Social Business and the Future of Capitalism
By Muhammad Yunus



PublicAffairs; 256 pages; $26 and £15.99

Buy it at
Amazon.com
Amazon.co.uk

Out of Poverty: What Works When Traditional Approaches Fail
By Paul Polak



Berrett-Koehler; 200 pages; $27.95 and £16.99

Buy it at
Amazon.com
Amazon.co.uk

scorns poverty experts who profess to know more about the subject than the people who live it. A former psychiatrist, he listens intently to poor people before allowing his mind to run over with tricks, gambits and contraptions that might help them.

He tries to weave his book together with the story of Krishna Bahadur Thapa, a Nepali farmer who escaped poverty thanks to some of the techniques and strategies Mr Polak advocates. For example, drip irrigation allowed Mr Thapa to grow cucumbers out of season, when they sold for three times their normal price. He invested the proceeds of his farm in a better home, schooling for his children and a more varied diet. Mr Thapa would not have described his profitable endeavours as a social business. But his story makes one wonder if honest enterprise really needs a new epithet to ennoble it.

Creating a World Without Poverty: Social Business and the Future of Capitalism.
By Muhammad Yunus.
PublicAffairs; 256 pages; $26 and £15.99

Out of Poverty: What Works When Traditional Approaches Fail.
By Paul Polak.
Berrett-Koehler; 200 pages; $27.95 and £16.99

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New fiction

To love and to hate

Feb 21st 2008
From The Economist print edition

GAIUS VALERIUS CATULLUS is famed for his epicurean lifestyle and erotic poems. In her tenth novel, Helen Dunmore, a poet herself, has taken Catullus's great love affair with Clodia Metelli, an older, married woman and the “Lesbia” of his most passionate verse, and woven a slow-burning story set in the dying days of the Roman empire.

Catullus, a melancholy hedonist, is obsessed with beautiful Clodia, though tormented by her capricious nature and morals. He declares himself jealous not only of her wealthy husband but also of her maidservant and even her pet sparrow. She, in turn, adores Catullus as her plaything and “dear poet”, opening to him the inner self that she keeps hidden from others. Yet Catullus is not Clodia's only interest and her infidelities inspire some of his most heartfelt poems. “Odi et amo” (I hate and I love) begins one, revealing his feelings for a woman who can both melt his heart and break it.

Counting the Stars
By Helen Dunmore

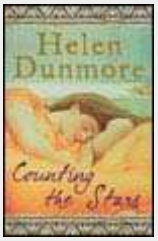

Fig Tree; 274 pages; £16.99

Buy it at
Amazon.co.uk

The love may be passionate but the narrative drive of “Counting the Stars” is slow. Not much happens: this is no pacey page-turner in the style of Robert Harris's gripping “Imperium”. Yet Ms Dunmore's ability to conjure character, place and emotion turns her slim story into a sensuous tale of food, sex, gossip, politics and human weakness. She portrays a Rome in which dogs lie in “slices of shade as thin as crescent moons”, slaves are the ears and eyes of everything, and the “milk-fed” rich vie for power in the simmering heat of a Roman summer.

“Counting the Stars” is accomplished and enjoyable. Its portrayal of Catullus's passion for undeserving Clodia is a reminder that obsessive love—that most dangerous of emotions—is but a hair's breadth from hate.

Counting the Stars.
By Helen Dunmore.
Fig Tree; 274 pages; £16.99

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British journalism

Hacks at work

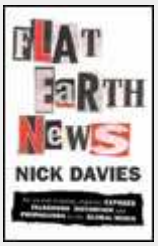
Feb 21st 2008
From The Economist print edition

JOURNALISTS have a pleasantly heroic self-image of down-at-heel crusaders dedicated to exposing falsehood, promoting justice and speaking truth to power. But that image is shared by few others: hacks routinely come near the bottom of surveys of public trust, sharing that honour with other perpetual hate-figures such as politicians or estate agents.

Nick Davies's latest book will only stoke such contempt. A long-serving reporter on the *Guardian*, a British daily, Mr Davies turns his investigative skills on his own profession. The picture he paints of journalism (almost entirely British despite the "global" in his subtitle) is of a debased trade in which rumour and unchecked speculation often masquerade as fact, where staff cuts mean that vast swathes of national life simply go unreported and where overstressed and underfunded reporters are easy prey for influence-peddlers, liars and conmen. As a British poet called Humbert Wolfe once wrote,

> You cannot hope to bribe or twist,
> Thank God, the British journalist.
> But seeing what the man will do
> Unbribed, there's no occasion to!

Flat Earth News: An Award-Winning Reporter Exposes Falsehood, Distortion and Propaganda in the Global Media
By Nick Davies



Chatto & Windus; 416 pages; £17.99

Buy it at Amazon.co.uk

Mr Davies has the advantage of being familiar with his subject. That helps him avoid traps that less informed critics sometimes stumble into. He dismisses the idea that journalists are simply malicious gossip-mongers (although some are) and rejects wilder theories that there is a sinister, organised conspiracy to mislead the public (although the chapters on media manipulation by politicians and intelligence agencies are fascinating). And he largely exonerates most proprietors of attempting ideologically to influence their newspapers. Instead, he argues, it is the discipline of the market that ruins reporting. Treating journalism as simply another business has led to disastrous cost-cutting and slipping standards.

Citing research done by Cardiff University, Mr Davies argues that the number of journalists in Britain is roughly the same today as it was 20 years ago. But the rise of supplements, websites and 24-hour services means that the same number of reporters must now fill three times as much space. The result he dubs "churnalism": more demand for copy means more time spent in airless offices and less spent out and about gathering stories. That, he says, makes reporters vulnerable to the "hidden persuaders"—PR firms, press offices and advertisers—who now seem to have more power and influence than the journalists they ostensibly serve. The same research claims that 60% of stories in Britain's quality papers are either recycled press-agency copy or rehashes of PR releases.

Mr Davies's argument that ruthless cost-cutting has damaged reporting is a powerful one, but it addresses only half the question. Markets excel at supplying what their customers want, but the book contains no discussion of readers' tastes. Much modern journalism may be rubbish, but it continues to sell in large quantities. And there is an unmistakable whiff of a golden age that never truly existed.

It is customary, at the end of books as critical as this one, to offer one or two thoughts on how to improve things. But Mr Davies suggests that the problem is terminal and offers few ideas. He finishes with a quotation from Joseph Pulitzer that "a cynical, mercenary, demagogic, corrupt press will produce in time a people as base as itself." But it is another, pithier quote from Matt Drudge, the American owner of a news-collection website, that sticks in the mind: "Screw journalism. The whole thing's a fraud, anyway."

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Media.
By Nick Davies.
Chatto & Windus; 416 pages; £17.99

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American currency

Lovely lucre

Feb 21st 2008
From The Economist print edition

Get article background

A MAN'S angry wife once ran $30,000 of his life savings though a paper shredder. Fortunately the nest-egg was in dollars and help was at hand in a little-known corner of America's federal bureaucracy. Since 1862 the Mutilated Currency Division of the Bureau of Engraving and Printing has pieced together partially destroyed American currency. So long as 51% of a bill remains and can be proved genuine, Uncle Sam will refund its full value.

With magnifying glasses, tweezers, scalpels and many gallons of disinfectant, the mutilated-currency specialists can spend up to two years analysing a single bill. “We don't care if it was in a fire, buried underground or water-damaged,” says one. “Maybe your dog ate it. Came out the other end. Clean it up a bit. We'll take care of it.” In 2006 the currency forensics handled about 20,000 cases and sent out cheques worth $66m.

This tale is one of the many fascinating titbits that Craig Karmin, a reporter for the *Wall Street Journal*, has compiled in his “biography” of the dollar, a book that tells the story of America's national currency. The approach is partly historical. Mr Karmin describes the dollar's wild youth. In the era of free banking between 1837 and 1863, for instance, more than 700 banks could issue their own notes, and as many as one-third of all bills were fake. He documents the greenback's gradual rise as an international currency after the creation of the Federal Reserve in 1913, and its global dominance after the second world war.

A dash of analysis is thrown in too. Mr Karmin explains how the dollar's hegemony fostered global prosperity but also enabled America to run up large external deficits—and describes the threat these deficits pose to the dollar's role, as well as the rise of challengers like the euro.

But his book is neither a definitive history nor a triumph of economic analysis. It is a series of lively stories, full of first-hand reporting, deftly woven together. You meet the hedge-fund honcho whose firm is one of the world's biggest currency-trading specialists; the Ecuadorean hotelier who had to change everything after his country dollarised; the president of an online bank that offers Americans foreign-currency accounts. Mr Karmin has not written an important book about the dollar but he has written a jolly entertaining one.

Biography of the Dollar: How the Mighty Buck Conquered the World and Why It's Under Siege.
By Craig Karmin.
Crown Business; 272 pages; $25.95

Biography of the Dollar: How the Mighty Buck Conquered the World and Why It's Under Siege
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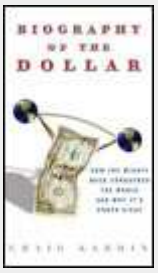

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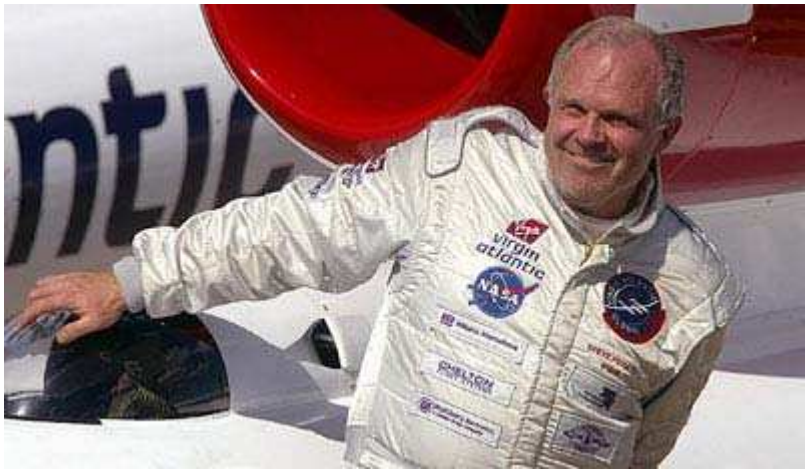
Steve Fossett

Feb 21st 2008
From The Economist print edition

AFP



Steve Fossett, adventurer and record-breaker, was declared dead on February 15th, aged 63

THE aircraft in which Steve Fossett took off from the Flying M ranch in Nevada on September 3rd 2007 was nothing special. It was not the stiff white dragonfly *GlobalFlyer*, a delicate construction of carbon fibre with all its interstices filled with fuel, in which in 2005 he had made the first non-stop solo flight round the world. Nor was it the silvery inflated sphere, ten storeys high and fitted with giant propane burners, in which in 2002 he had made the first solo circumnavigation of the globe by balloon. It was a Bellanca Super Decathlon two-seater with a single engine, one of several sitting round the ranch that day, in which Mr Fossett might leave as casually as a boy might take a bike ride to the grocery store.

Nor did he plan to be away long. The man who had once spent 67 hours flying in a seven-foot coffin round the world, sustained by protein milkshakes and a catheter and kept awake by talking to Richard Branson, had reckoned to be back by lunchtime. Accordingly, where he had sometimes climbed on board with 20lb of aeronautical maps, enough supplies to fill an aisle of Walgreen's and, for quieter moments, “War and Peace”, he now took only a bottle of water with him, and no parachute.

There was therefore probably something in the conviction of his friends that he had gone up simply for pleasure: to ride the wind-patterns, enjoy the desert landscape, rejoice in his own adventure, and come down again. Except that Mr Fossett very rarely did things just for pleasure. He wanted to achieve, to endure and to excel, and behind his gentle manner lay a tiger's determination. Just down the road too, in Sparks, was a warehouse containing the strange, finned, tubular car in which he hoped to break the land speed record, travelling as close as he could to 800 miles an hour. He had often said he could hardly wait to try.

In his 30s Mr Fossett had typed out a list of things to do that included, rather than putting up shelves or going to the gym, doing all the World Loppet cross-country skiing marathons, swimming the English Channel and climbing the highest mountain on each continent. He did them all, except for climbing Everest, for which he found he did not have the patience. But he also took part in the Le Mans 24-hour car race, the Boston Marathon and the Iditarod dog-sled race in Alaska. He performed the fastest sail circumnavigation, the fastest sail transatlantic crossing and the highest flight in a glider, nine miles (15.5km) above the Andes. By sea or by air he set 116 records, of which 60 still stand, sewing them up (ever the keen Eagle Scout) like badges on his arm.

You could tell by the look of him that he was no thrill-seeker: a plump man, even plumper in a pressurised suit, who had to breathe in sharply to wriggle into the tiny capsules on his record-breaking craft, and whose thin grey hair lifted in the wind as he struggled out again. You could tell it, too, by his soft unhurried voice. There was no self-promotion, only method and doggedness. He was an inexperienced sailor when he crossed the Pacific alone in 20 days in 1996; a novice skier when he did the World Loppet; and a man with a mere 11 lessons under his belt when he began to try to balloon round

the world. It took six attempts. He swam the Channel on his fourth attempt, the slowest crossing that year, at the age of 41.

A five-mile fall

Risk-management was the key to his achievements. He learned that skill as a toddler, driving the family car only a careful half-a-block rather than heading for the highway; and he reinforced it in his first career, as a stock-options trader on the floor of the Chicago Board Options Exchange. Through the market plunge of the late 1970s and the Reagan boom of the 1980s, Mr Fossett rented out exchange memberships in Chicago and New York, making a fortune. The money then paid for his adventures, in premium equipment and proper training. Perhaps his shrewdest move was to take out a $500,000 insurance policy that would pay him $3m if his global balloon flight succeeded. Everything was carefully calculated: so much so, that his friend and sponsor Mr Branson supposed he was half-man, half-android.

Yet not everything could be controlled, as he was well aware. His autobiography, “Chasing the Wind”, acknowledged his dependence on “partnering” every variation of air and weather to speed his unsteered balloons and his sails. He confessed he was terrified of being shot down as he drifted over hostile lands. Although his worst accident was man-made, messing up a training jump, he had several hair-raising brushes with nature: tumbling down a glacier on the Eiger, crash-landing in a tree in India and, on his fourth balloon attempt, plunging five miles into the Coral Sea with the canopy on fire.

Since he had survived that, his friends thought he could come through anything; that some weeks after his departure in the Bellanca that September morning he would reappear, strolling amiably down the road, “and have another story to tell”. But even the most modern scanning and mapping technology could not find him, or the blue fabric of his aircraft, in the sage-scrub and desert in which his risk-planning seems finally to have failed him.

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Overview

Feb 21st 2008
From The Economist print edition

Crude oil prices reached a new record. The price of a barrel of West Texas Intermediate crude rose to $101.32 on February 20th. The milestone was reached amid fresh supply disruptions and fears that OPEC would not increase its output quotas at its next meeting on March 5th. Agricultural commodities, such as wheat and tea, were also trading near record prices.

In **America** consumer prices rose by 0.4% in January, leaving them 4.3% higher than a year earlier. The core measure, which excludes food and energy prices, rose by 0.3%. The number of new houses under construction edged up by 0.8% in January, but was 28% lower than in the same month in 2007.

China's consumer prices rose by 7.1% in the year to January, up from 6.5% in the year to December. Much of the upward pressure came from an 18.2% increase in food prices.

Canada's consumer prices rose by 2.2% in the year to January.

In **Mexico** GDP rose at an annual rate of 3.0% in the fourth quarter, a solid performance given the fragile state of the economy in America, Mexico's largest trading partner.

Consumer-price inflation in **Sweden** fell from 3.5% in December to 3.2% in January.

Australia's central bank, which raised its key interest rate from 6.75% to 7% earlier this month, had considered a larger increase, according to the minutes to its policy meeting.

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Output, prices and jobs

Feb 21st 2008
From The Economist print edition

Output, prices and jobs

% change on year ago

	Gross domestic product				Industrial production	Consumer prices			Unemployment
	latest	qtr*	2008†	2009†	latest	latest	year ago	2008†	rate‡, %
United States	+2.5 Q4	+0.6	+1.6	+2.5	+2.3 Jan	+4.3 Jan	+2.1	+2.9	4.9 Jan
Japan	+2.0 Q4	+3.7	+1.3	+1.8	+0.8 Dec	+0.7 Dec	+0.3	+0.6	3.8 Dec
China	+11.2 Q4	na	+9.9	+9.5	+17.4 Dec	+7.1 Jan	+2.2	+4.0	9.5 2007
Britain	+2.9 Q4	+2.4	+1.7	+2.1	+0.7 Dec	+2.2 Jan§	+2.7	+2.3	5.2 Dec††
Canada	+2.9 Q3	+2.9	+1.7	+2.4	+0.7 Nov	+2.2 Jan	+1.1	+1.8	5.8 Jan
Euro area	+2.3 Q4	+1.6	+1.8	+1.9	+1.3 Dec	+3.2 Jan	+1.8	+2.4	7.2 Dec
Austria	+3.3 Q4	+2.9	+2.5	+2.5	+1.1 Nov	+3.6 Dec	+1.5	+2.3	4.3 Dec
Belgium	+2.6 Q3	+2.2	+1.9	+2.0	+3.2 Nov	+3.5 Jan	+1.7	+2.3	10.8 Dec††
France	+2.0 Q4	+1.2	+1.7	+1.9	+1.4 Dec	+2.8 Jan	+1.2	+2.2	7.9 Q3§§
Germany	+1.8 Q4	+1.1	+1.8	+2.0	+4.4 Dec	+2.7 Jan	+1.6	+2.1	8.1 Jan
Greece	+3.6 Q4	+2.9	+2.4	+2.5	+0.8 Dec	+3.9 Jan	+2.7	+3.3	7.6 Nov
Italy	+1.9 Q3	+1.7	+1.2	+1.5	−6.4 Dec	+2.9 Jan	+1.7	+2.4	5.9 Q3
Netherlands	+4.4 Q4	+4.7	+2.0	+2.1	+10.2 Dec	+2.0 Jan	+1.4	+2.1	4.1 Jan††
Spain	+3.5 Q4	+3.2	+2.4	+2.4	−0.3 Dec	+4.3 Jan	+2.4	+3.2	8.6 Dec
Czech Republic	+6.9 Q4	na	+4.7	+5.4	+2.9 Dec	+7.5 Jan	+1.3	+5.7	6.1 Jan
Denmark	+1.7 Q3	+6.7	+1.6	+1.8	−2.6 Dec	+2.9 Jan	+1.8	+2.2	2.7 Dec
Hungary	+0.7 Q4	+0.8	+2.8	+3.6	+5.3 Dec	+7.1 Jan	+7.8	+4.7	7.7 Dec††
Norway	+5.2 Q4	+5.2	+2.9	+2.6	−1.9 Dec	+3.7 Jan	+1.2	+3.1	2.5 Nov††
Poland	+6.4 Q3	na	+6.3	+3.7	+10.8 Jan	+4.3 Jan	+1.6	+0.3	11.4 Dec‡‡
Russia	+7.7 Q3	na	+6.7	+5.7	+4.8 Jan	+12.6 Jan	+8.2	+11.5	6.1 Dec‡‡
Sweden	+2.5 Q3	+2.4	+2.6	+2.6	+1.2 Dec	+3.2 Jan	+1.9	+2.8	6.4 Jan‡‡
Switzerland	+2.9 Q3	+1.3	+2.0	+2.0	+10.7 Q3	+2.4 Jan	+0.1	+1.6	2.6 Jan
Turkey	+1.5 Q3	na	+3.7	+5.4	−1.4 Dec	+8.2 Jan	+9.9	+8.2	10.1 Q4‡‡
Australia	+4.3 Q3	+4.1	+3.5	+3.3	+1.6 Q3	+3.0 Q4	+3.3	+3.1	4.1 Jan
Hong Kong	+6.2 Q3	+7.0	+4.0	+4.6	−2.1 Q3	+3.8 Dec	+2.3	+3.7	3.4 Jan††
India	+8.9 Q3	na	+7.5	+7.2	+7.6 Dec	+5.5 Dec	+6.9	+5.8	7.2 2007
Indonesia	+6.3 Q4	na	+6.1	+5.7	+2.0 Nov	+7.4 Jan	+6.3	+6.4	9.8 Feb
Malaysia	+6.7 Q3	na	+5.5	+5.7	+5.7 Dec	+2.3 Jan	+3.2	+2.8	3.1 Q3
Pakistan	+7.0 2007**	na	+5.4	+5.4	+4.7 Nov	+11.9 Jan	+6.6	+7.9	6.2 2006
Singapore	+5.4 Q4	−4.8	+4.9	+4.7	−1.7 Dec	+4.4 Dec	+0.8	+3.0	1.6 Q4
South Korea	+5.5 Q4	+6.3	+4.6	+4.6	+12.4 Dec	+3.9 Jan	+1.7	+2.9	3.0 Jan
Taiwan	+6.4 Q4	na	+4.5	+4.0	+10.7 Dec	−1.1 Jan	+0.4	+2.3	4.0 Dec
Thailand	+4.9 Q3	+6.3	+4.7	+4.0	+11.6 Dec	+4.3 Jan	+3.0	+3.2	1.1 Nov
Argentina	+8.7 Q3	+11.7	+5.5	+4.5	+12.9 Jan	+8.2 Jan	+9.7	+11.4	7.5 Q4‡‡
Brazil	+5.7 Q3	+6.9	+4.5	+4.1	+6.4 Dec	+4.6 Jan	+3.0	+4.5	7.4 Dec‡‡
Chile	+4.1 Q3	−2.5	+4.0	+4.3	+3.4 Dec	+7.5 Jan	+2.8	+6.2	7.2 Dec†††‡‡
Colombia	+6.6 Q3	+6.9	+5.5	+4.5	+7.4 Nov	+1.1 Jan	+4.7	+5.0	9.4 Nov‡‡
Mexico	+3.8 Q4	+3.0	+1.9	+3.0	+1.3 Dec	+3.7 Jan	+4.0	+4.1	4.1 Jan‡‡
Venezuela	+8.7 Q3	na	+5.0	+3.7	+2.7 Sep	+24.1 Jan	+18.4	+24.0	8.5 Q3‡‡
Egypt	+8.1 Q4	na	+7.3	+6.7	+7.5 2007**	+10.5 Jan	+12.4	+6.6	8.8 Q3‡‡
Israel	+4.8 Q3	+6.1	+3.7	+4.2	+2.5 Nov	+3.5 Jan	+0.1	+2.8	7.3 Q3
Saudi Arabia	+4.3 2006	na	+6.0	+5.6	na	+6.5 Dec	+2.9	+5.0	na
South Africa	+5.1 Q3	+4.7	+4.7	+5.4	+0.3 Dec	+9.0 Dec	+5.8	+6.6	25.5 Mar‡‡
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*								
Estonia	+4.5 Q4	na	+4.3	+4.7	−2.1 Dec	+11.0 Jan	+5.1	+8.2	5.2 Nov
Finland	+4.1 Q3	+3.0	+3.1	+2.8	+2.6 Dec	+3.8 Jan	+2.3	+2.2	6.4 Jan
Iceland	+4.3 Q3	+9.9	+2.3	+2.8	+7.6 2006	+5.9 Jan	+6.9	+4.6	1.0 Jan‡‡
Ireland	+4.1 Q3	+5.6	+2.8	+2.9	+0.8 Dec	+4.3 Jan	+5.2	+3.0	4.9 Jan
Latvia	+9.6 Q4	na	+6.6	+6.5	−5.4 Dec	+15.8 Jan	+7.1	+10.5	5.4 Dec
Lithuania	+7.9 Q4	−4.3	+7.2	+6.4	na	+9.9 Jan	+4.0	+7.0	4.6 Jan‡‡
Luxembourg	+5.6 Q3	+2.8	+4.4	+4.8	−1.3 Oct	+3.3 Jan	+2.3	+2.3	4.4 Dec‡‡
New Zealand	+3.4 Q3	+1.1	+2.0	+2.7	+1.3 Q3	+3.2 Q4	+2.6	+2.8	3.4 Q4
Peru	+8.1 Nov	na	+6.1	+6.7	+6.5 Dec	+4.2 Jan	+0.6	+2.7	7.0 Dec‡‡
Philippines	+7.3 Q4	+7.4	+5.3	+5.3	−2.9 Nov	+4.9 Jan	+3.9	+3.7	6.3 Q4‡‡
Portugal	+2.0 Q4	+2.4	+2.0	+2.2	−0.9 Dec	+2.9 Jan	+2.6	+2.3	7.8 Q4‡‡
Slovakia	+14.1 Q4	na	+7.0	+5.7	+14.2 Dec	+3.8 Jan	+3.0	+3.0	8.0 Dec‡‡
Slovenia	+6.3 Q3	na	+4.8	+4.0	nil Dec	+6.4 Jan	+2.7	+3.6	7.3 Dec‡‡

*% change on previous quarter, annual rate. †*The Economist* poll or Economist Intelligence Unit estimate/forecast. ‡National definitions. §RPI inflation rate 4.1% in Jan. **Year ending June. ††Latest three months. ‡‡Not seasonally adjusted. §§New series.

Sources: National statistics offices and central banks; Thomson Datastream; Reuters; Centre for Monitoring Indian Economy; OECD; ECB

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The Economist commodity-price index

Feb 21st 2008
From The Economist print edition

The Economist commodity-price index

2000=100

	Feb 12th	Feb 19th*	% change on one month	% change on one year
Dollar index				
All items	244.1	252.2	+11.6	+33.8
Food	243.2	251.6	+10.9	+57.5
Industrials				
All	245.3	253.0	+12.6	+12.1
Nfa†	187.6	190.5	+5.0	+21.9
Metals	276.9	287.2	+15.6	+9.0
Sterling index				
All items	188.8	196.0	+12.2	+34.2
Euro index				
All items	154.7	158.2	+10.6	+19.4
Gold				
$ per oz	915.75	927.95	+4.0	+41.2
West Texas Intermediate				
$ per barrel	92.65	99.53	+11.0	+70.9

*Provisional †Non-food agriculturals.

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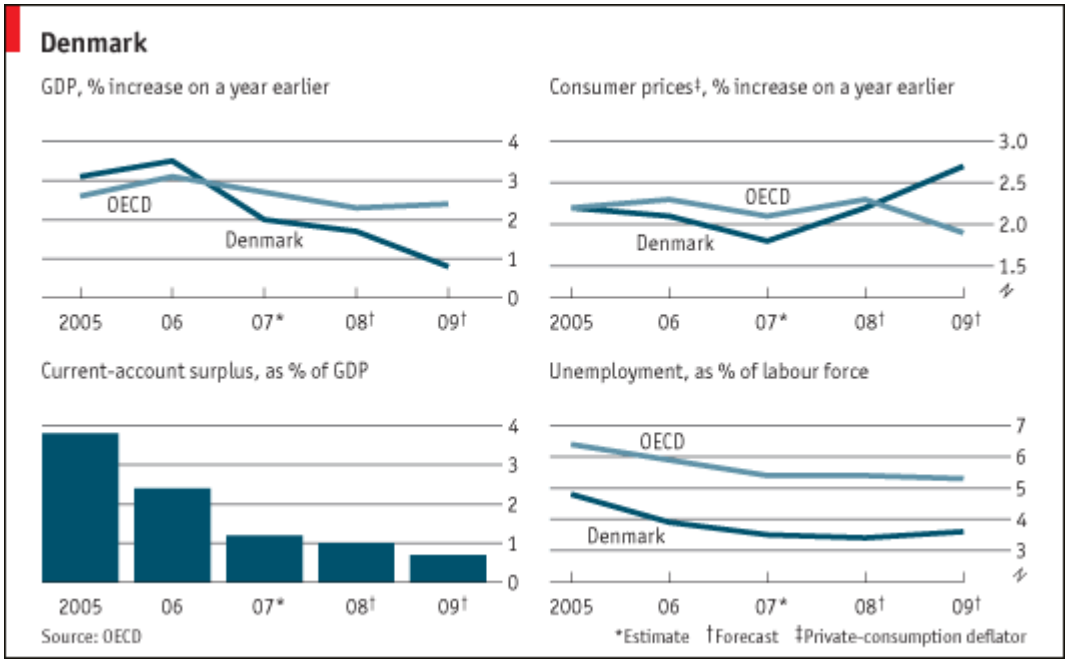
Denmark

Feb 21st 2008
From The Economist print edition



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Trade, exchange rates, budget balances and interest rates

Feb 21st 2008
From The Economist print edition

Trade, exchange rates, budget balances and interest rates

	Trade balance* latest 12 months, $bn	Current-account balance latest 12 months, $bn	Current-account balance % of GDP 2008†	Currency units, per $ Feb 20th	Currency units, per $ year ago	Budget balance % of GDP 2008†	Interest rates, % 3-month latest	Interest rates, % 10-year gov't bonds, latest
United States	−815.6 Dec	−752.4 Q3	−4.8	–	–	−2.5	2.73	3.93
Japan	+105.6 Dec	+212.8 Dec	+4.8	108	121	−2.4	0.74	1.43
China	+265.2 Jan	+249.9 2006	+10.7	7.14	7.74	0.2	4.50	4.24
Britain	−175.1 Dec	−129.4 Q3	−3.7	0.52	0.51	−3.2	5.63	4.67
Canada	+45.9 Dec	+16.3 Q3	+0.3	1.02	1.16	0.6	3.25	4.00
Euro area	+39.0 Dec	+18.9 Dec	nil	0.68	0.76	−1.0	4.37	4.01
Austria	+1.2 Nov	+11.3 Q3	+3.1	0.68	0.76	−0.7	4.37	4.10
Belgium	+16.2 Dec	+13.3 Sep	+2.5	0.68	0.76	−0.6	4.43	4.27
France	−53.8 Dec	−33.8 Dec	−1.4	0.68	0.76	−2.8	4.37	4.13
Germany	+257.8 Dec	+223.2 Dec	+5.7	0.68	0.76	0.6	4.37	4.01
Greece	−55.2 Nov	−48.3 Dec	−12.9	0.68	0.76	−2.7	4.37	4.40
Italy	−12.8 Dec	−43.8 Nov	−2.4	0.68	0.76	−2.6	4.37	4.40
Netherlands	+57.0 Dec	+50.1 Q3	+7.3	0.68	0.76	0.3	4.37	4.09
Spain	−130.1 Nov	−136.9 Nov	−9.0	0.68	0.76	nil	4.37	4.18
Czech Republic	+4.2 Dec	−5.4 Dec	−3.8	17.2	21.5	−2.6	3.94	4.49
Denmark	+3.8 Dec	+3.2 Dec	+1.3	5.09	5.68	2.8	4.70	4.12
Hungary	−0.6 Dec	−6.8 Q3	−6.0	182	192	−4.1	7.87	7.65
Norway	+60.8 Jan	+59.9 Q3	+15.8	5.39	6.13	17.9	5.95	4.43
Poland	−12.1 Dec	−15.5 Dec	−5.1	2.44	2.96	−1.3	5.80	5.92
Russia	+132.1 Dec	+76.6 Q4	+4.3	24.6	26.2	1.2	10.25	6.55
Sweden	+17.8 Dec	+29.4 Q3	+6.0	6.37	7.08	2.2	4.22	4.07
Switzerland	+11.6 Jan	+69.6 Q3	+14.7	1.10	1.24	0.6	2.78	2.88
Turkey	−62.8 Dec	−38.0 Dec	−7.4	1.21	1.39	−2.9	16.48	6.18‡
Australia	−18.0 Dec	−49.9 Q3	−5.4	1.09	1.27	1.5	7.81	6.40
Hong Kong	−23.5 Dec	+26.9 Q3	+7.0	7.80	7.81	3.8	2.30	2.99
India	−68.9 Dec	−10.9 Q3	−2.3	40.2	44.2	−3.2	7.25	7.87
Indonesia	+39.7 Dec	+10.3 Q3	+2.5	9,190	9,069	−1.8	8.07	6.74‡
Malaysia	+29.3 Dec	+28.7 Q3	+13.9	3.22	3.49	−3.1	3.62	3.48‡
Pakistan	−16.1 Jan	−8.4 Q4	−6.9	62.0	60.7	−5.1	10.09	9.37‡
Singapore	+34.5 Jan	+39.1 Q4	+22.4	1.41	1.53	0.1	1.50	2.32
South Korea	+10.4 Jan	+6.0 Dec	+0.8	946	938	0.2	5.26	5.18
Taiwan	+16.3 Jan	+31.7 Q4	+5.9	31.6	33.0	−2.1	2.60	2.36
Thailand	+12.0 Dec	+14.9 Dec	+2.2	32.5	33.9	−2.1	3.28	3.83
Argentina	+11.2 Dec	+6.8 Q3	+2.0	3.15	3.10	1.2	10.13	na
Brazil	+38.5 Jan	+3.6 Dec	−0.1	1.74	2.08	−2.5	11.18	6.16‡
Chile	+23.7 Jan	+6.7 Q3	+4.0	470	540	5.3	6.24	4.13‡
Colombia	−1.4 Nov	−5.2 Q3	−3.8	1,909	2,219	−1.3	9.28	6.00‡
Mexico	−11.2 Dec	−7.5 Q3	−1.5	10.8	11.0	nil	7.43	7.60
Venezuela	+23.4 Q3	+20.2 Q3	+7.3	5.00	4.23§	−2.6	11.77	6.55‡
Egypt	−20.5 Q4	+0.5 Q1	+0.9	5.49	5.71	−7.0	5.84	4.87‡
Israel	−10.7 Jan	+5.9 Q3	+1.3	3.63	4.19	−1.4	4.15	5.11
Saudi Arabia	+146.6 2006	+98.9 2006	+21.8	3.75	3.75	12.0	3.00	na
South Africa	−10.3 Dec	−19.9 Q3	−7.8	7.90	7.13	0.6	11.30	8.82
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*							
Estonia	−4.2 Nov	−3.4 Dec	−14.1	10.7	11.9	1.3	6.60	na
Finland	+12.2 Dec	+11.3 Dec	+4.2	0.68	0.76	3.7	4.28	4.10
Iceland	−1.7 Jan	−3.0 Q3	−10.3	67.5	66.7	2.3	13.52	na
Ireland	+37.3 Nov	−11.1 Q3	−3.2	0.68	0.76	−1.1	4.37	4.24
Latvia	−7.2 Dec	−6.4 Dec	−21.5	0.48	0.54	1.0	6.94	na
Lithuania	−7.1 Dec	−5.3 Nov	−13.5	2.36	2.63	−0.6	4.83	na
Luxembourg	−6.0 Nov	+4.7 Q3	na	0.68	0.76	0.9	4.37	na
New Zealand	−3.9 Dec	−10.2 Q3	−7.4	1.26	1.42	3.8	7.30	6.47
Peru	+8.3 Nov	+2.2 Q3	+1.3	2.90	3.19	1.4	4.96	na
Philippines	−5.0 Nov	+5.8 Sep	+4.6	40.8	48.1	−0.3	6.75	na
Portugal	−26.4 Dec	−19.8 Nov	−8.1	0.68	0.76	−2.6	4.37	4.31
Slovakia	−0.9 Dec	−0.8 Oct	−2.4	22.6	26.2	−2.3	4.17	4.30
Slovenia	−2.9 Dec	−1.9 Nov	−2.5	0.68	0.76	−0.7	na	na

*Merchandise trade only. †*The Economist* poll or Economist Intelligence Unit forecast. ‡Dollar-denominated bonds. §Unofficial exchange rate.

Sources: National statistics offices and central banks; Thomson Datastream; Reuters; JPMorgan; Bank Leumi le-Israel; Centre for Monitoring Indian Economy; Danske Bank; Hong Kong Monetary Authority; Standard Bank Group; UBS; Westpac.

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Markets

Feb 21st 2008
From The Economist print edition

Markets

	Index Feb 20th	% change on one week	% change on Dec 29th 2006 in local currency	% change on Dec 29th 2006 in $ terms
United States (DJIA)	12,427.3	–1.0	–6.3	–6.3
United States (S&P 500)	1,360.0	–0.5	–7.4	–7.4
United States (NAScomp)	2,327.1	–2.0	–12.3	–12.3
Japan (Nikkei 225)	13,310.4	+1.9	–13.0	–10.2
Japan (Topix)	1,302.7	+1.4	–11.7	–8.9
China (SSEA)	4,792.4	+1.7	–13.2	–12.0
China (SSEB, $ terms)	321.5	+3.6	–13.4	–12.2
Britain (FTSE 100)	5,893.6	+0.2	–8.7	–10.0
Canada (S&P TSX)	13,551.7	+2.0	–2.0	–3.4
Euro area (FTSE Euro 100)	1,186.8	–1.0	–13.7	–14.0
Euro area (DJ STOXX 50)	3,758.5	–1.2	–14.6	–14.9
Austria (ATX)	3,945.8	+1.0	–12.6	–12.9
Belgium (Bel 20)	3,734.2	+0.5	–9.5	–9.9
France (CAC 40)	4,812.8	–0.9	–14.3	–14.6
Germany (DAX)*	6,899.7	–1.1	–14.5	–14.8
Greece (Athex Comp)	4,285.5	–1.5	–17.2	–17.6
Italy (S&P/MIB)	33,816.0	–0.6	–12.3	–12.6
Netherlands (AEX)	446.7	+0.6	–13.4	–13.7
Spain (Madrid SE)	1,418.6	–1.4	–13.6	–13.9
Czech Republic (PX)	1,569.8	nil	–13.5	–10.2
Denmark (OMXCB)	409.5	+0.1	–8.8	–9.1
Hungary (BUX)	23,877.4	–2.7	–9.0	–12.7
Norway (OSEAX)	490.5	+3.5	–13.9	–14.7
Poland (WIG)	49,837.5	+0.1	–10.4	–10.8
Russia (RTS, $ terms)	2,020.6	+0.8	–11.3	–11.8
Sweden (Aff.Gen)	303.1	+0.8	–11.0	–10.4
Switzerland (SMI)	7,381.6	–2.1	–13.0	–11.1
Turkey (ISE)	45,876.7	+2.5	–17.4	–19.5
Australia (All Ord.)	5,577.3	–0.7	–13.1	–11.1
Hong Kong (Hang Seng)	23,590.6	+1.8	–15.2	–15.2
India (BSE)	17,617.6	+3.9	–13.2	–13.9
Indonesia (JSX)	2,689.3	+3.0	–2.1	–0.7
Malaysia (KLSE)	1,414.3	–0.6	–2.1	–0.1
Pakistan (KSE)	14,829.6	+5.1	+5.4	+3.2
Singapore (STI)	3,026.8	+2.6	–12.7	–11.4
South Korea (KOSPI)	1,687.9	+3.4	–11.0	–11.9
Taiwan (TWI)	7,894.5	+4.6	–7.2	–4.9
Thailand (SET)	827.1	–0.3	–3.6	–1.2
Argentina (MERV)	2,074.7	+1.5	–3.6	–3.9
Brazil (BVSP)	63,747.0	+1.8	–0.2	+1.8
Chile (IGPA)	13,442.6	+1.2	–4.5	+1.8
Colombia (IGBC)	9,448.3	+3.1	–11.6	–6.2
Mexico (IPC)	29,224.4	–0.3	–1.1	+0.4
Venezuela (IBC)	35,169.7	+0.2	–7.2	–60.2
Egypt (Case 30)‡	10,648.7	+5.1	+1.7	+1.8
Israel (TA-100)	1,015.4	–0.4	–12.1	–6.3
Saudi Arabia (Tadawul)	10,127.1	+10.3	+27.7	+27.7
South Africa (JSE AS)	29,489.7	+3.5	+1.8	–9.8
Europe (FTSEurofirst 300)	1,321.0	–1.0	–12.3	–12.7
World, dev'd (MSCI)	1,443.2	–0.2	–9.2	–9.2
Emerging markets (MSCI)	1,139.5	+2.5	–8.5	–8.5
World, all (MSCI)	366.6	+0.1	–9.1	–9.1
World bonds (Citigroup)	747.1	–0.2	+2.3	+2.3
EMBI+ (JPMorgan)	431.0	–0.6	–0.6	–0.6
Hedge funds (HFRX)	1,318.9	+0.6	–0.8	–0.8
Volatility, US (VIX)	24.4	24.9	22.5	(levels)
CDSs, Eur (iTRAXX)†	110.9	+9.3	+213.5	+212.3
CDSs, N Am (CDX)†	159.3	+5.4	+100.7	+100.7
Carbon trading (EU ETS) €	21.5	+8.2	–3.4	–3.7

*Total return index. †Credit-default swap spreads, basis points.

Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Reuters; WM/Reuters; JPMorgan Chase; Bank Leumi le-Israel; CBOE; CME; Danske Bank; EEX; HKMA; Markit; Standard Bank Group; UBS; Westpac. ‡New index.

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Aid

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From The Economist print edition

The wealthy countries that are members of the OECD's Development Assistance Committee cut their official foreign aid to $104 billion in 2006, says a new report from the outfit. That figure represents just over 0.3% of their combined national income, well below the 0.7% target set by the United Nations. A handful of rich countries, including Sweden, Norway, Luxembourg, the Netherlands and Denmark, did exceed the UN target. In cash, America was the largest donor, even after it slashed its assistance by nearly a fifth in real terms. But as a share of national income its contribution is among the smallest. Italy's aid also fell sharply, whereas Ireland's rose by more than third in real terms in 2006.

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